ACCOUNTS COMMISSION

418th meeting of the Accounts Commission for Scotland

Thursday 13 August 2015, 10.15am
in the offices of Audit Scotland, 18 George Street, Edinburgh

Agenda

1. **Apologies for absence.**

2. **Declarations of interest.**

3. **Decisions on taking business in private:** The Commission will consider whether to take items 13 to 17 in private (* see note).

4. **Minutes of meeting of 11 June 2015.**

5. **Minutes of meeting of Financial Audit and Assurance Committee of 18 June 2015.**

6. **Minutes of meeting of Performance Audit Committee of 18 June 2015.**

7. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.

8. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.

9. **Annual Audit Scotland transparency and quality report:** The Commission will consider a report by the Assistant Auditor General.

10. **Following the public pound:** The Commission will consider a joint report by the Secretary to the Commission and Director of Performance Audit and Best Value.

11. **Commission meeting arrangements 2016:** The Commission will consider a report by the Secretary to the Commission.

12. **Audit of Best Value: Falkirk Council:** The Commission will consider a report by the Controller of Audit.

The following items are proposed to be considered in private:

13. **Audit of Best Value: Falkirk Council:** The Commission will consider the action it wishes to take.

14. **Audit procurement strategy:** The Commission will consider a report by the Assistant Auditor General.

15. **Draft Commission strategy 2015-18:** The Commission will consider a report by the Secretary to the Commission.

16. **Website demonstration**: The Commission will consider a report by the Communications Manager, Audit Scotland.

17. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that items 13 to17 be considered in private because:

- Item 13 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision. The Commission does this before making this decision public.

- Item 14 proposes a draft audit procurement strategy which contains information of a commercially sensitive nature.

- Item 15 proposes a draft strategy for the Commission, which the Commission is to consider before publishing the report.

- Item 16 involves the Commission reviewing a website design that has yet to be launched or made public.

- Item 17 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required, and what it covers.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of the Commission of 11 June 2015	AC.2015.7.1
Agenda Item 5: Minutes of meeting of the Financial Audit and Assurance Committee of 18 June 2015	AC.2015.7.2
Agenda Item 6: Minutes of meeting of Performance Audit Committee of 18 June 2015	AC.2015.7.3
Agenda Item 7: Report by Secretary to the Commission	AC.2015.7.4
Agenda Item 9: Report by Assistant Auditor General	AC.2015.7.5
Agenda Item 10: Report by Director of Performance and Best Value	AC.2015.7.6
Agenda Item 11: Report by Secretary to the Commission	AC.2015.7.7
Agenda Item 12: Cover report by Secretary to the Commission	AC.2015.7.8
Agenda Item 14: Report by Assistant Auditor General	AC.2015.7.9
Agenda Item 15: Report by Secretary to the Commission	AC.2015.7.10
Agenda Item 16: Report by Communications Manager	AC.2015.7.11

Accounts Commission

MEETING 13 AUGUST 2015

MINUTES OF PREVIOUS MEETING

Minutes of the 417th meeting of the Accounts Commission held in the offices of Audit Scotland at 18 George Street, Edinburgh, on Thursday, 11 June 2015, at 10.15am

PRESENT: Douglas Sinclair (Chair)
             Ronnie Hinds (Deputy Chair)
             Alan Campbell
             Sandy Cumming
             Tim McKay
             Christine May
             Stephen Moore
             Linda Pollock
             Colin Peebles
             Graham Sharp
             Pauline Weetman
             Colin Duncan

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
                 Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
                 Anne Cairns, Manager, Audit Strategy [Item 9]
                 Russell Frith, Assistant Auditor General [Item 9]
                 Anne MacDonald, Senior Audit Manager, Audit Services [Items 10 and 11]
                 Ronnie Nicol, Assistant Director, PABV [Items 10 and 11]
                 Katherine Sibbald, Senior Manager, PABV [Items 7, 8, 10 and 11]
                 Peter Worsdale, Audit Manager, PABV [Items 10 and 11]

Item No   Subject

1.   Apologies for absence
2.   Declarations of interest
3.   Decisions on taking business in private
4.   Minutes of meeting of 14 May 2015
5.   Update report by the Secretary to the Commission
6.   Update report by the Controller of Audit
7.   Statutory performance information 2013/14: an evaluation of Councils' responses to the 2012 direction
8.   Statutory performance information: strategy
9.   Housing and council tax benefits administration audit activity – annual report
10.   Audit of Best Value: Aberdeen City Council
11.   Audit of Best Value: Aberdeen City Council *[in private]*
12.   Edinburgh trams public enquiry *[in private]*
13.   Draft Commission annual report 2015 *[in private]*
14.   Commission business matters *[in private]*

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1. <u>Apologies for absence</u>

It was noted that there were no apologies for absence.

2. <u>Declarations of interest</u>

The following declarations of interest were made:

- Alan Campbell, in item 10, as a former Chief Executive of Aberdeenshire Council and as a resident of Aberdeen.

- Ronnie Hinds, in item 12, as a former Head of Financial Services at City of Edinburgh Council and as a member of the board of Transport Initiatives Edinburgh Ltd. He played no part in the consideration of the said item.

- Tim McKay, in item 12, as a former elected member of City of Edinburgh Council.

- Christine May, in item 6, as Vice-Chair of Fife Cultural Trust.

- Linda Pollock, in item 5, as a member of the board of the Care Inspectorate.

3. <u>Decisions on taking business in private</u>

It was agreed that items 11 to 14 should be taken in private for the following reasons:

- Item 11 requires the Commission to consider actions in relation to a report by the Controller of Audit. The Commission is then obliged by statute to inform the council in question of its decision. The Commission does this before making this decision public.

- Item 12 proposes a draft response by the Commission to the Edinburgh trams public inquiry, which the Commission is to consider before making the response public.

- Item 13 proposes a draft annual report for the Commission, which the Commission is to consider before publishing the report.

- Item 14 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required, and what it covers.

4. <u>Minutes of meeting of 14 May 2015</u>

The minutes of the meeting of 14 May 2015 were submitted and approved.

Arising therefrom, in relation to paragraph 9 (Council funding gaps), the Commission noted, advice from the Director of Performance Audit and Best Value that:

- The Director of Audit Services had met with CIPFA Directors of Finance section and discussed the paper, which was well received by the group.

- He would report further to the Financial Audit and Assurance Committee on issues around 'going concern'.

5. <u>Update report by the Secretary to the Accounts Commission</u>

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission noted advice from the Secretary:

- That the Local Government and Regeneration Committee agreed on 3 June its work programme for the next Parliamentary session. The Secretary advised the Commission of the content of the programme, and that he would advise the Committee of areas of interest to the Commission.

- In relation to paragraph 29, on the content of stage 3 amendments to the Community Empowerment Bill, which were currently being lodged, with a view to stage 3 being completed and the final Bill debated by Parliament on 17 June.

- In relation to paragraph 40, that a new administration was now in place in Aberdeenshire Council.

Thereafter, the Commission agreed to note the report.

6.   Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

7.   Statutory performance information 2013/14: an evaluation of Councils' responses to the 2012 direction

The Commission considered a report by the Director of Performance Audit and Best Value providing a summary of how well councils had met the requirements of its Statutory Performance Information Direction 2012 in relation to the reporting of performance information, with regard to statutory performance indicators (SPI) 1 and 2 (by reporting a range of corporate management and service performance information, being sufficient to demonstrate Best Value) and SPI 3 (by reporting service performance in accordance with the requirements of the Local Government Benchmarking Framework).

During discussion, the Commission agreed:

- In relation to paragraph 17, to note advice from the Director that variations between councils would be an issue that would feed into the local government overview report.

- Further in this regard, that this issue feature in the Commission's correspondence with councils on this report.

- To also feature in the Commission's correspondence with councils on this report the Commission's view that councils should review and learn from good practice in relation to public performance reporting.

- To note that councils' response to SPI 1 and SPI 2 has continued to improve overall, in terms of their handling of public performance reporting.

- To note that all councils are complying with SPI 3, on the Local Government Benchmarking Framework, which was introduced with the Direction 2012 for performance in 2013/14.

- To note that councils' progress with responding to the areas for improvement identified in this assessment will be monitored through annual audit and Best Value processes.

- To write to all councils to:

  o report the progress that has been made in this area across the local government sector during 2014/15 offering further encouragement for

councils to make further progress with improving public performance reporting.

    o advise of its ongoing consideration of its long-term strategic direction in relation to SPIs.

Actions: Secretary to the Commission
& Director of Performance Audit and Best Value

8. <u>Statutory performance information - strategy</u>

The Commission considered a report by the Director of Performance Audit and Best Value inviting the Commission to consider its overall strategy for statutory performance information in the context of the evolving maturity of the Local Government Benchmarking Framework (LGBF) and the Commission's future approach to auditing Best Value.

During discussion, the Commission agreed:

- To endorse a strategy incorporating the following principles:

  o A longer-term (four or five-year) statutory performance information Direction.

  o A recognition of the increasing maturity of, and the Commission's support for the further development of, the LGBF.

  o Addressing how additional information that the Commission requires councils to publish, beyond that specified by the LGBF, links with the Commission's Best Value interests.

  o Incorporating the assessment of councils' approaches to public performance reporting as an integral element of the new approach to auditing Best Value, rather than undertaking separate assessments of this aspect of councils' performance.

- To seek the views of COSLA, SOLACE, the Improvement Service and the LGBF Board about:

  o this strategy.

  o how they could fulfil the Commission's desire for information beyond the LGBF, as described above.

- To seek clarity through further legal advice that it is within the Commission's powers to place reliance in the LGBF.

- To note that a further report will be brought to a future meeting of the Commission with a draft SPI Direction.

- To note that a further report will consider the implications of the Commission's statutory responsibilities in relation to performance information for the Commission's interests in integration joint boards.

Actions: Secretary to the Commission and
Director of Performance Audit and Best Value

9.   <u>Housing and council tax benefits administration audit activity – annual report</u>

The Commission considered a report by the Assistant Auditor General advising of the outcome of Audit Scotland's benefits performance audit work during 2014/15.The report also provided an update on welfare reform.

During discussion, the Commission agreed:

- The report of the outcomes of the 2014/15 benefit performance audit work, subject to minor revisions raised during discussion.

- To send the report to all council chief executives and chairs of audit committees.

- That consideration be given to incorporating the following into the scope of future benefits performance audit work:

    o Annual cost of the service, including unit cost information.

    o Any implications of increased numbers of working recipients of benefits.

- That the scope of a review of good practice in benefits services be given further consideration by the Performance Audit Committee.

Actions: Assistant Auditor General

10.   <u>Audit of Best Value: Aberdeen City Council</u>

The Commission considered a report by the Secretary to the Commission seeking its consideration of the Controller of Audit's report of the Best Value audit of Aberdeen City Council and seeking direction on how to proceed.

Following questions to the Controller of Audit, the Commission agreed to consider in private how to proceed.

11.   <u>Audit of Best Value: Aberdeen City Council</u> *[in private]*

The Commission discussed how to proceed in relation to the statutory report by the Controller of Audit on the audit of Best Value in Aberdeen City Council.

Following discussion, the Commission agreed to make findings:

- To make findings, to be published on 2 July 2015.

- As part of those findings, to require the Controller of Audit to note the Commission's continuing interest in the Council and to monitor and report back if there is evidence that improvements are not being delivered or embedded.

Actions: Secretary

12.   <u>Edinburgh trams public enquiry</u> *[in private]*

The Commission considered a report by the Director of Performance Audit and Best Value proposing a submission, made jointly with the Auditor General, to the Edinburgh Tram Public Inquiry.

Following discussion, the Commission agreed:

- The terms of the response, subject to points raised in discussion.

- To advise in the response the Commission's position that given the ongoing inquiry, there is no intention to undertake any more work with regard to the current scheme.

Actions: Director of Performance Audit and Best Value

13. Draft Commission Annual Report *[in private]*

The Commission considered a report by the Secretary to the Commission proposing the draft Annual Report for the Commission for 2014/15.

Following discussion, the Commission agreed the draft Annual Report, to be published on 24 June.

14. Commission business matters [*in private*]

The Chair briefed the Commission on matters of interest.

There being no further business, the meeting was closed.

ACCOUNTS COMMISSION

ACCOUNTS COMMISSION

MEETING 13 AUGUST 2015

MINUTES OF MEETING OF FINANCIAL AUDIT AND ASSURANCE COMMITTEE OF 18 JUNE 2015

Minutes of meeting of the Financial Audit and Assurance Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 18 June 2015, at 10am.

PRESENT: Douglas Sinclair (Chair)
                  Ronnie Hinds
                  Linda Pollock
                  Pauline Weetman

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
                  Russell Frith, Assistant Auditor General
                  Fiona Kordiak, Director of Audit Services
                  John Gilchrist, Manager, Audit Strategy [Items 4 to 7]
                  Owen Smith, Senior Manager, Audit Strategy [Items 4 to 7]

1.   Apologies for absence
2.   Declarations of interest
3.   Draft minutes of meeting of 30 April 2015
4.   Current audit issues in councils
5.   Annual audit plans overview
6.   Audit procurement strategy
7.   Code of audit practice
8.   Any other business

In the absence of Graham Sharp, Douglas Sinclair assumed the Chair.

1. Apologies

It was noted that apologies for absence had been received from Graham Sharp and Colin Duncan.

2. Declarations of interest

Linda Pollock declared an interest in item 4 as a member of the board of the Care Inspectorate and as a trustee of Enable.

3. Minutes of meeting of 30 April 2015

The minutes of the meeting of 30 April 2015 were noted and approved.

Arising therefrom, in relation to item 4, second bullet point (East Renfrewshire Council – overpayment of personal care), it was noted that the item would be discussed as part of item 4.

4. Current audit issues in councils

The Committee considered a report by the Controller of Audit outlining emerging issues in Scottish councils that had been previously been discussed by the Committee.

During discussion, the Committee agreed:

- To note advice from the Controller of Audit that he would continue to monitor the situation with regard to the housing and non-housing repairs contract in North Lanarkshire Council.
- That the Controller of Audit keep the Committee informed on progress in Midlothian Council in relation to the Newbyres Housing Development.

Action: Controller of Audit

- In relation to East Renfrewshire Council (overpayment of personal care):

  o To note advice from the Assistant Auditor General that the National Fraud Initiative (NFI) does not currently cover care-at-home, but that he was discussing with partners involved in the NFI the implications of this in relation to the next round of NFI audit work, upon which he would report further to the Committee.

  Action: Assistant Auditor General

  o To note advice from the Director of Audit Services that she would report further to the Committee on the risks around payments in relation to care management.

  Action: Director of Audit Services

Thereafter the Committee agreed to note the report.

5. Annual audit plans overview

The Committee considered a report by the Assistant Auditor General on his review of auditors' plans for the 2014/15 audits.

During discussion the Committee agreed to note advice from the Director of Audit Services that she was discussing with the Assistant Auditor General issues around the definition of audit risk and the implications of this for audit planning, upon which they would keep the Committee informed.

Action: Assistant Auditor General
and Director of Audit Services

Thereafter the Committee agreed to note the report.

6.   Audit procurement strategy

The Committee considered a report by the Assistant Auditor General seeking the Committee's views on a paper setting out issues in relation to a procurement strategy for the next round of audit appointments, for onward consideration of the emerging strategy by the Accounts Commission at its next meeting.

Following discussion the Committee agreed a range of provisional conclusions in the paper, to be presented to the Commission at its next meeting.

Action: Assistant Auditor General

7.   Code of audit practice

The Committee considered a report by the Assistant Auditor General seeking the Committee's views on the direction and key changes to the next Code of Audit Practice that will be in place for the next procurement round, for onward consideration by the Accounts Commission at its next meeting

Following discussion, the Committee agreed:

- That the paper to be presented to the Commission at its next meeting address the range of points raised and revisions agreed in discussion.

- That a draft of the paper be shared with the members of the Best Value audit review group in advance of the next Commission meeting.

Action: Assistant Auditor General

8.   Any other business

There being no further business, the meeting was closed.

![Accounts Commission logo]

ACCOUNTS COMMISSION

MEETING 13 AUGUST 2015

MINUTES OF MEETING OF PERFORMANCE AUDIT COMMITTEE OF 18 JUNE 2015

Minutes of meeting of the Performance Audit Committee of the Accounts Commission held in the offices of Audit Scotland, 18 George Street, Edinburgh on Thursday, 18 June 2015, at 2pm.

PRESENT: Ronnie Hinds (Chair)
                     Alan Campbell
                     Sandy Cumming
                     Christine May
                     Stephen Moore
                     Douglas Sinclair

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
                     Antony Clark, Assistant Director, PABV [Item 5]
                     Angela Cullen, Assistant Director, PABV [Items4, 5 and 6]
                     Ursula Lodge, Audit Manager, PABV [Item 4]
                     Martin McLauchlan, Senior Auditor, PABV [Item 4]
                     Gordon Neill, Senior Manager, PABV [Item 5]
                     Andra Laird, Audit Manager, PABV [Items 5 and 6]
                     Mark Pentland, Auditor, PABV [Item 6]

<u>Item no.</u>   <u>Subject</u>

1.   Apologies for absence
2.   Declarations of interest
3.   Minutes of meeting of 30 April 2015
4.   Performance audit: scope – Major capital investment in councils
5.   Performance audit: scope – Health and social care integration
6.   Performance audit: impact report – Reshaping the public sector workforce
7.   Any other business

1. Apologies for absence

   It was noted that no apologies for absence had been received.

2. Declarations of interest

   It was noted that there were no declarations of interest.

3. Minutes of meeting of 30 April 2015

   The minutes of the meeting of 30 April 2015 were approved.

   Arising therefrom, in relation to item 7 (Performance information, benchmarking and public performance reporting: progress), the Committee noted advice from the Secretary that Douglas Sinclair and Ronnie Hinds were meeting the board of the Local Government Benchmarking Framework on 19 June.

4. Performance audit: scope: Major capital investment in councils

   The Committee considered a report by the Director of Performance Audit and Best Value seeking approval on the approach to the performance audit *Major capital investment in councils (follow-up).* The report was complemented with a presentation from the audit team.

   Following discussion, the Committee approved the approach proposed in the Director's report, subject to the audit team addressing the issues raised in discussion, in conjunction with the audit sponsors, Sandy Cumming and Graham Sharp.

   Action: Director of Performance Audit and Best Value

5. Performance audit: scope – Health and social care integration

   The Committee considered a report by the Director of Performance Audit and Best Value seeking approval of the approach to the performance audit *health and social care integration – position statement,* a joint audit for the Accounts Commission and Auditor General. The report was complemented with a presentation from the audit team.

   Following discussion, the Committee approved the approach proposed in the Director's report, subject to the audit team addressing the issues raised in discussion, in conjunction with the audit sponsors, Stephen Moore and Pauline Weetman.

   Action: Director of Performance Audit and Best Value

6. Performance audit: scope – impact report – Reshaping the public sector workforce

   The Committee considered a report by the Director of Performance Audit and Best Value on the impact of the report of the audit *Scotland's public sector workforce.*

   Following discussion, the Committee agreed:

   - To recommend to the Commission that its next workshop event around the development of the performance audit programme consider issues beyond the scope of this audit, such as workforce redesign, cultural implications and good practice.

     Action: Secretary

   - That future impact reports provide more comparative analysis of media impact against other audit reports.

     Action: Director of Performance Audit and Best Value

- To note that proposals around promotion activity will continue to be developed as a feature of draft audit reports to the Commission.

- That this report, and other future impact reports, be drawn to the attention of council leaders and chief executives, in order that their prominence be improved.

Action: Secretary and
Director of Performance Audit and Best Value

7. <u>Any other business</u>

There being no further business, the meeting was closed.

![Accounts Commission logo](ACCOUNTS COMMISSION)

MEETING: 13 AUGUST 2015

REPORT BY: SECRETARY TO THE ACCOUNTS COMMISSION

UPDATE REPORT

Introduction

1. The purpose of this report is to provide a regular update to the Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.

2. The regular Controller of Audit report to the Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee also receives a more detailed update on issues relating to local government. This report complements the weekly briefing provided by Audit Scotland's Communication Team made available on the extranet site. This provides more detailed news coverage in certain areas.

3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business

4. The Accounts Commission Annual Report for 2014/15 was published on 24 June, highlighting the Commission's work over the year.

Publications:

5. The follow up report, The Audit of Best Value and Community Planning: East Dunbartonshire Council was published on 4 June. The report found that there was a gap between the council's ambitions and the actual delivery of them. There was good coverage in the media including BBC coverage on its website. The report has been downloaded from the website 470 times and there have been 41 downloads of the podcast. More information on the media coverage has been uploaded to the Commission member extranet site.

6. On 2 July the report on The Audit of Best Value and Community Planning: Aberdeen City Council was published. The report found that the council has made progress but that a great deal more improvement was needed and this was reported across the national press including the Herald and the Scotsman. The report has been downloaded 292 times. More information on the media coverage has been uploaded to the Commission member extranet site.

Auditor General for Scotland:

7. On 18 June the Auditor General for Scotland (AGS) report Managing ICT contracts in central government: an update was published. The report finds that both the Scottish Government and central government bodies are still finding managing such projects a challenge. The report received good local and national press coverage and some radio

coverage. There have been 234 downloads of the report and 171 downloads of the podcast.

Issues affecting local government

Scottish Government:

8.   The Scottish Government has published an [Integration Public Assurance Guide](#) providing advice on the process of assurance to local authorities, health boards and Integrated Joint Boards.

9.   The Scottish Government has published its counter fraud strategy [Protecting Public Resources in Scotland – the strategic approach to fighting fraud and error](#). The new strategy emphasises the benefits of prevention and of public bodies working together. Audit Scotland is a supporter of the strategy and the logo appears in it together with other agencies.

10.   The [Annual Planning Performance statistics](#) were published by Scotland's Chief Statistician on 23 July. The publication gives quarterly and annual performance information on decision time taken for planning decisions on local and major developments. From the previous year, average decision times for local developments improved slightly to 10.1 weeks in 2014/15, while decisions on major developments became around two weeks slower to 36.6 weeks.

11.   Scottish Labour's Finance Spokesperson, Jackie Baillie, has publicly called for (and has written to the Auditor General requesting that) Audit Scotland carry out an urgent investigation into the reclassification of capital projects undertaken by the Scottish Futures Trust and the overall impact on the level of indebtedness of public sector organisations. A response from the Auditor General is being prepared. The Scottish Government has issued its own statement advising of its confidence in the delivery of specific ongoing capital projects and committing to the First Minister updating the Parliament on the matter if necessary.

Scottish Parliament

Parliamentary Committee News:

Local Government and Regeneration Committee:

12.   On 3 June the Committee considered its work programme for the period September 2015 to March 2016 and agreed to undertake a series of work, including:

- An oral evidence session with the Cabinet Secretary for Social Justice, Communities and Pensioners' Rights and any other stakeholders on various planning issues including those raised in a petition on Equal Rights of Appeal.

- An oral evidence session on the findings of the Commission on Local Tax Reform from the Scottish Government and COSLA, following the publication of the Commission's final report on its work.

- A follow up oral evidence session on the consultation the Scottish Government carried out in the wake of the Committee's report on its inquiry into the 2012 Scottish local government elections.

- Launching a public call for questions during October and November 2015 on public engagement and the effectiveness of the Local Government Benchmarking

Framework in improving local authority services to the public. I have written to the Committee regarding this.

- A commitment to undertake, in principle, and short inquiry on the structure and role of Arm's Length Organisations (ALEOs) by local authorities in Scotland. I have written to the Committee regarding this, and it is discussed further on the paper on today's agenda on 'following the public pound'.

- An agreement to undertake a short focused inquiry on the impact of recommendations by the Scottish Public Services Ombudsman on how well public sector organisations implement changes following recommendations of the SPSO.

- A more detailed approach to scrutiny of local government pension fund investment in supporting capital infrastructure development. The scope of the approach was decided at the meeting.

13. At its meeting on 10 June, the Committee took oral evidence on the complaints process following the integration of health and social care. Concerns were brought to the Committee by the Scottish Public Services Ombudsman about the complaints process for joint health and social care services. The purpose of the evidence session was therefore to clarify what progress, if any, had been made in relation to the establishment of an effective single public handling process for these services. The Committee agreed to write to the witnesses, following up on issues raised and also agreed to review the further progress by undertaking a follow-up evidence session with witnesses in autumn 2015.

14. At the meeting on 24 June the Committee took evidence on the Accounts Commission Local Government Overview Report 2015 from Douglas Sinclair, Chair, Accounts Commission for Scotland, Fraser McKinlay, Director of Performance Audit and Best Value and Cathy MacGregor, Audit Manager, Audit Scotland and agreed to write to the Commission seeking follow up information on various issues. We have yet to receive this correspondence.

Public Audit Committee:

15. The Committee took evidence on the AGS report Scotland's colleges 2015 from college representatives and the Auditor General at its meetings on 10 June and 24 June. The Committee agreed to write to college principals and the Scottish Funding Council on the issues raised in the discussions.

16. At their meeting on 10 June, the Committee also agreed to changes in its draft report on the AGS report The 2013/14 audit of NHS Highland: financial management.

17. At the meeting on 24 June, the Committee took evidence on the AGS report Managing ICT contracts in central government: An update from Caroline Gardner, Angela Cullen, Assistant Director, Gemma Diamond, Senior Manager, and Morag Campsie, Audit Manager, Audit Scotland. The Committee agreed to get oral evidence from the Scottish Government on the issues raised in the discussion.

18. On the 24 June the Committee also considered submissions from the Scottish Government and Scottish Funding Council regarding the Section 22 report The 2012/13 audit of North Glasgow College and the Committee agreed to consider a draft report at a future meeting.

19. The Committee also considered a progress update from the Scottish Government to the Committee's report Report on Accident and Emergency – performance update.

20. The Committee considered and agreed a draft letter to the Cabinet Secretary for Infrastructure, Investment and Cities regarding the AGS report entitled Superfast broadband for Scotland: A progress report.

21. Finally, the Committee considered a paper on the audit and accountability arrangements for the proposed further devolution of powers.

Infrastructure and Capital Investment Committee:

22. On 17 June the Committee took evidence on public procurement reform and Glasgow Prestwick airport.

23. On 5 June the Committee published its annual report for 2014-15.

Finance Committee:

24. On 17 June the Committee took evidence from the Acting Minister for Children and Young People and Scottish Government on the Early Years Change Fund.

25. The Committee continued to take evidence on the proposals for a fiscal framework set out by the Smith Commission at its meeting on 3 June and reported back on its fact finding visit to Stockholm.

Bills – Progress Updates:

26. The Community Justice (Scotland) Bill was introduced on 7 May 2015 by the Cabinet Secretary for Justice and is being considered at Stage 1 by the Justice and Finance Committees.

27. The Air Weapons and Licensing (Scotland) Bill (introduced 14 May 2014) was passed on 25 June 2015.

28. The Community Empowerment (Scotland) Act 2015 received Royal Assent on 24 July.

29. The Education (Scotland) Bill was introduced on 23 March 2015 with the Education and Culture Committee considering it at Stage 1 on 28 April, 9 and 23 June. The Delegated Powers and Law Reform Committee and Finance Committee have also considered the Bill at Stage 1.

30. Stage 1 of the Harbours Bill was completed on 16 June 2015 by the Infrastructure and Capital Investment Committee and Stage 2 amendments can now be lodged.

31. The following Bills have not progressed further since my last report:

   - Consideration of the Criminal Justice (Scotland) Bill at Stage 2 is continuing.

Smith Commission - Updates:

32. At present, the Smith Commission's proposals are currently being considered within the Scottish and UK Parliaments, principally through the Devolution (Further Powers) Committee and Scottish Affairs Committee respectively.

COSLA, Improvement Service etc:

33. COSLA has published its review on local government funding, which makes a series of recommendations including a review of the current Council Tax bands and the reintroduction of non-domestic rates.

34. COSLA also submitted its response to the Commission on Local Tax Reform on 30 June.

35. On 7 July the Local Government Boundary Commission for Scotland began its consultation on proposed electoral wards for each council area as part of a review of electoral arrangements. The proposals include recommendations for councillor numbers in each of local authority area and details of the number, boundaries and names of the wards, including cutting councillor numbers by four – to 1,219 - and removing one ward, relative to existing arrangements.

36. Holyrood launched their 2015 Scottish Public Service Awards on 27 July celebrating excellence within Scotland's public services. Nominations are open until 5 October with the awards ceremony taking place on 7 December.

Current activity and news in Scottish local government:

General:

37. Scottish Secretary David Mundell has committed to more powers for Scotland's island communities on a trip to Stornoway. He stated: "I'm keen for the islands councils to play a full part in the ongoing debate on how the substantial powers in the Scotland Bill are used to directly benefit island communities."

38. A number of Scottish councils have been nominated for awards in the APSE (Association of Public Service Excellence) Delivering on Frontline Services Annual Seminar on 2 and 3 September. They are as follows:

- North Lanarkshire Council
    - Best Employment and Equality Initiative

- Glasgow City Council
    - Best Housing, Regeneration or New Build Initiative
    - Best Partnership Working Initiative (Public/Private Partnership working)
    - Best Innovation or Demand Management Initiative
    - Best Service Team of the Year: Highways, Winter Maintenance and Street Lighting Service

- North Ayrshire Council
    - Best Housing, Regeneration or New Build Initiative
    - Best Partnership Working Initiative (Public/Private Partnership working)
    - Best Service Team of the Year: Construction and Building Service
    - Best Service Team of the Year: Catering Service
    - Best Service Team of the Year: Highways, Winter Maintenance and Street Lighting Service
    - Best Service Team of the Year: Transport and Fleet Service

- West Lothian Council
    - Best Housing, Regeneration or New Build Initiative

- East Ayrshire Council
    - Best Efficiency and Transformation Initiative

- Fife Council
  - Best Efficiency and Transformation Initiative
  - Best Service Team of the Year: Transport and Fleet Service

- City of Edinburgh Council
  - Best Health and Well-being Initiative (including Social Care)
  - Best Partnership Working Initiative (Public/Private Partnership working)

- East Renfrewshire Council
  - Best Community and Neighbourhood Initiative (including Community Safety)
  - Best Service Team of the Year: Transport and Fleet Service
  - Best Service Team of the Year: Street Cleansing and Streetscene Service
  - Best Service Team of the Year: Parks, Grounds and Horticultural Service

- West Dunbartonshire Community Health and Care Partnership
  - Best Community and Neighbourhood Initiative (including Community Safety)

- Aberdeen City Council
  - Best Innovation or Demand Management Initiative
  - Best Renewable Energy or Energy Efficiency Initiative

- Dundee City Council
  - Best Innovation or Demand Management Initiative

- North Lanarkshire Council
  - Best Service Team of the Year: Construction and Building Service

- Dumfries and Galloway Council
  - Best Service Team of the Year: Catering Service

- Scottish Borders Council
  - Best Service Team of the Year: Catering Service

- Clackmannanshire Council
  - Best Service Team of the Year: Highways, Winter Maintenance and Street Lighting Service

- Falkirk Council
  - Best Service Team of the Year: Highways, Winter Maintenance and Street Lighting Service

- Renfrewshire Council
  - Best Service Team of the Year: Waste Management and Recycling Service

- Stirling Council
  - Best Service Team of the Year: Waste Management and Recycling Service

- South Lanarkshire Council
  - Best Service Team of the Year: Cemetery and Crematorium Service

39. The Commission on Housing and Wellbeing called on 18 June for a "radical" change in direction from policy makers. The Commission, which was set up by Shelter Scotland, made 18 recommendations which it said would begin to address the housing-related poverty and environmental challenges currently facing Scotland. A key

recommendation of its report is the need to construct 23,000 new homes a year, including 9,000 affordable homes.

40. On 25 June, the Commission for Childcare Reform published its findings, arguing that The Scottish and UK governments should work more closely to provide more flexible quality childcare. Families should have access to 50 hours of free or subsidised childcare per week, throughout the year and not just in term time, the commission said in a letter to First Minister Nicola Sturgeon and UK Scottish Secretary David Mundell. The current entitlement in Scotland is 600 hours of annual funded early learning and childcare, which local authorities mostly provide through state nursery schools in the education system. But the report warns only 15 percent of local authorities in Scotland have enough childcare for parents who work full-time, compared with 43 percent in England. The commission, led by Children in Scotland and the Scottish Council for Development and Industry (SCDI) has published its final report which praises governments and local authorities for "acting in good faith" in their ambitions for childcare expansion.

Individual councils:

41. On 29 July, the *Herald* reported that the Commission "sees no reason to act" with regard to the Council's contract for housing and non−housing property repairs and maintenance. The report quoted a spokesperson from the Council reiterating this assertion. The Chair has written to the Herald to clarify that, to the contrary, the Commission has expressed no view on this matter, advising that the Controller of Audit has kept the Commission up to date and will continue to monitor the situation, including the Council's ongoing response to the external auditor's review of the matter. I have also corresponded with the Council's Chief Executive to further clarify the position.

42. Glasgow City Council has forecast that it will have to make £100m of cuts in the next 2 years.

43. Representatives from Audit Scotland are due to meet with campaigners about the Marischal Square decision in Aberdeen in the week beginning 17 August.

44. SNP councillor Catherine Johnstone was elected the new leader of Midlothian Council on 25 June. Previous leader Owen Thompson announced he was stepping down as both leader and an SNP councillor for Midlothian West from 1 July following his election as MP for the Midlothian constituency.

45. Andrew Kerr, previously of Cornwall County Council, has now succeeded Sue Bruce as Chief Executive of City of Edinburgh Council.

46. The City of Edinburgh Council officials involved in receiving bribes for contracts for property repairs were found guilty under the Public Bodies Corrupt Practices Act and have been jailed for a total of 13 years between them.

47. City of Edinburgh Council has published a business case for extending the tram network. The Council states that it is planning to approach the Scottish Government for funding for the potential £145 million extension.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman (SPSO):

48. The July newsletter SPSO News – July summarises June 2015 case numbers, outlines investigations reports, recent SPSO news and highlights emerging issues. The SPSO are laying four reports before the Scottish Parliament, three in relation to the health sector and one regarding Fife Council. More information on the SPSO's work, including detailed Investigations and decision reports, is available on the Our findings webpage. More detailed intelligence from the SPSO is considered on a six-monthly basis by the Financial Audit and Assurance Committee.

Commissioner for Ethical Standards in Public Life in Scotland:

49. Since the previous meeting of the Commission, eleven decisions on complaints relating to councillors were published by the Commissioner. The Commissioner decided Councillor Jim Sharkey at Renfrewshire Council, Councillor Vivien Dance at Argyll and Bute Council, Councillor Mark McInnes at City of Edinburgh Council, Councillor Tom Gray at Perth and Kinross Council, Councillor Ian Cockburn at Highland Council, Councillor Catriona Stewart at Western Isles Council, Councillor Isobel Davidson at Aberdeenshire Council, Councillor Willie Young at Aberdeen City Council, Councillor Ian Miller at Perth and Kinross Council and Councillor William Duff at Angus Council did not contravene the Councillors' Code of Conduct. The Commissioner also decided that Councillors George Adam, Yvonne Allan, Scott Carle, Barney Crockett, Lesley Dunbar, Gordon Graham, Ross Grant, Len Ironside, Jenny Laing, Graham Lawrence, M Tauqeer Malik, Ramsay Milne, Jean Morrison, Angela Taylor, Willie Young, Marie Boulton, Andrew Finlayson, Fraser Forsyth, Johhn Reynolds and Alan Donnelly at Aberdeen City Council had not contravened the Councillors' Code of Conduct. More detailed intelligence from the Commissioner is considered routinely by the Financial Audit and Assurance Committee.

Standards Commission for Scotland:

50. A hearing panel of the Standards Commission on 14th July heard a complaint regarding alleged contraventions of the Councillors' Code of Conduct by Councillor Brian Thomson at Fife Council. The complaint alleged that '*Councillor Thomson had failed to declare his own non-financial interest and also the non-financial interests of close relatives in respect of a lobbying group after a planning application had been received and the formal planning process was underway*'. Councillor Thomson accepted that he had breached the Code of Conduct and the decision of the Hearing Panel was to suspend him from all meetings of Fife Council North East Planning Committee and from any meeting of the full Council where planning matters relating to North East Fife were to be considered in July and August 2015.

Care Inspectorate:

51. The Care Inspectorate and the Scottish Social Services Council (SSSC) have issued joint guidance on the legal requirement for staff to register with the SSSC within a six month period.

Other UK Audit Bodies

National Audit Office:

52.   The National Audit Office (NAO) has published a [report](#) on how the Department for Communities and Local Government has taken steps to improve its understanding of new burdens on local authorities since November 2014.

53.   The NAO published its [Annual Report and Accounts 2014-15](#) on 16 June and on 24 June published the [NAO Diversity Annual Report 2014-15](#). The diversity report summarises progress over the third year of the 2012-15 strategy.

54.   The NAO has produced a [leaflet](#) on its role and responsibilities regarding the audit of local public bodies. The short leaflet also details examples of recent value-for-money work and current work in progress.

55.   A [series of short guides](#) has been published by the National Audit Office, on each government department. Each guide summarises what the department does including its main business areas and services, how much it costs, and any recent and planned changes. These were produced to assist House of Commons Select Committees.

56.   In a report published on 1 July, [Open-book accounting and supply-chain assurance](#), the NAO has called for the government to negotiate more access to information about how much outsourced public services are actually costing suppliers and therefore how much profit they are making.

57.   On 20 July the NAO published a report called [Overseeing financial sustainability in the further education sector](#) which found that as the number of further education colleges in financial difficulty are expected to rise rapidly, there are fundamental structural problems which may require decisions at a regional or sector-wide level.

Wales Audit Office

58.   Wales Audit Office published its [Annual Report and Accounts 2014-15](#) on 15 June.

Westminster

Public Accounts Committee:

59.   In June Megg Hillier was elected Chair of the Public Accounts Committee and will replace Margaret Hodge. She is a former Labour Home Office Minister. In her candidate statement for the role she pledged to focus on proper accountability of local services, particularly in the NHS and education, and also proposed that the committee undertake more pre-legislative scrutiny of large projects on a value-for-money basis.

Other general

60.   CIPFA is inviting comments on a revised CIPFA/SOLACE Framework *[Delivering Good Governance in Local Government](#)*. The Framework defines the principles that should underpin the governance of each local government body and provides a structure to assist local authorities with their own approach to governance. They are looking for responses to the consultation by 28 September and a draft response will be prepared for the Commission meeting in September.

61.   Lord Sewel, a former member of the Accounts Commission for Scotland, has resigned from the House of Lords due recent drug claims.

Conclusion

62.   The Commission is invited to consider and note this report.

Paul Reilly
Secretary to the Accounts Commission
5 August 2015

ACCOUNTS COMMISSION

MEETING 13 AUGUST 2015

REPORT BY ASSISTANT AUDITOR GENERAL

ANNUAL TRANSPARENCY AND QUALITY REPORT

Purpose

1.   The purpose of this paper is to introduce, for the Commission's information, Audit Scotland's Annual Transparency and Quality Report. The report is intended to provide the Commission with assurance about the quality of audit services delivered on its behalf by Audit Scotland and the professional firms. The report is attached.

Background

2   The attached report outlines Audit Scotland's governance structures, quality arrangements and developments in them and summarises the quality assurance work undertaken across Audit Scotland during 2014/15.

3.   The first part of the report outlining Audit Scotland's vision, governance and structure, and finance is similar to the information that firms are required to disclose. While most of this information is available in other places the Transparency section of the report draws it together in one place.

4.   The Quality part of the report describes the quality arrangements in place and the quality assurance activity undertaken. Reviews concluded that work was carried out to an appropriate standard, but there are always learning points which are taken into account in future audits.

Overall conclusion

5.   Overall Audit Scotland is able to provide assurance to the Accounts Commission that we have robust arrangements in place to ensure the quality of our audit work and that nothing has arisen from the quality assurance work carried out that would require any disclosures of weaknesses or failures in the governance statement in the Annual Report and Accounts.

Recommendation

6.   The Commission is requested to discuss the report and to note its conclusion.

Russell Frith
Assistant Auditor General
3 August 2015

Transparency and quality

Annual report 2014/15

AUDIT SCOTLAND

Contents

Key messages

- Audit Scotland's Corporate Plan priorities include commitments to improve the quality of audit and focus audits on where they add most value. Our Quality Framework, which was revised this year to reflect international initiatives on the quality of audit, continues to provide an effective principle-led structure for our quality control and quality monitoring activities.

- The quality control arrangements in place across Audit Scotland continue to develop to drive us towards our vision of being a world-class audit organisation.

- The results of quality monitoring activities this year enable us to provide assurance to the Auditor General and the Accounts Commission that the quality of audit work carried out during 2014/15 has remained high.

Introduction

1. Audit Scotland supports the Auditor General and the Accounts Commission to ensure public money in Scotland is used properly, efficiently and effectively. It does this by carrying out financial, performance and Best Value audits across the public sector in Scotland whose total annual spend is over £40 billion. In carrying out this work Audit Scotland seeks to be transparent in its governance and operations and to produce consistent high-quality audits.

2. Audit Scotland is a statutory body established under the Public Finance and Accountability (Scotland) Act 2000 to carry out audits and examinations for the Auditor General and the Accounts Commission. The Auditor General audits or appoints the external auditor of most public bodies in Scotland except for local authorities where the Accounts Commission is responsible for securing audits.

3. The 2013/14 audits completed in the year cover around 200 organisations including:
   - 74 central government bodies (Scottish Government, non-departmental public bodies, agencies and others)
   - Scottish Parliamentary Corporate Body
   - 23 NHS bodies
   - 32 councils (including 125 related charities' opinions)
   - 11 local government pension funds
   - 33 joint boards and committees
   - 21 further education colleges

4. Audit Scotland's Quality Framework, which sets out the high level principles underpinning the quality of its work, was updated in 2015 and took account of a number of national and international initiatives and publications including the International Audit and Assurance Standards Board's *A Framework for Audit Quality* (2014) and the Financial Reporting Council's *Professional Scepticism* (2012). The Framework requires the annual quality report to take the form of a *Transparency and Quality Report* in line with best practice for auditors of public listed entities in the private sector.

5. This report therefore combines information on the overall structure and governance of Audit Scotland (**transparency**) with information on the arrangements in place for producing high quality work, by Audit Scotland and the appointed firms, in the services provided to the Auditor General and the Accounts Commission (**quality**).

**Transparency
and Quality Report**

**Audit Scotland Audit Committee
and Board**
Assurance prior to sign off of the
Annual Report and Accounts

**Auditor General and
Accounts Commission**
Assurance on the quality of work
commissioned on their behalf

Transparency

Vision, principles and themes

Vision

6. Audit Scotland's Corporate Plan sets out our vision to be a world-class audit organisation that improves the use of public money. It sets out our key function as providing independent assurance to the people of Scotland that public money is spent properly and provides value for money.

Principles

7. Audit is at the heart of the work carried out by Audit Scotland staff. The principles which guide this work are set out in the Code Of Audit Practice:

- Auditors are independent of the organisations that they audit.
- Public audit is wide in scope to reflect the accountabilities attached to the use of public money.
- Audits are based on comprehensive risk assessment.
- Reports are made public.
- Auditors work in partnership with each other.
- Auditors work collaboratively with other scrutiny bodies.
- Auditors work as catalysts to help public bodies improve their performance.
- Audits are carried out to a high standard using skilled and experienced staff.
- Audits are informed by assessment of costs and benefits and achievement of Best Value or value for money.
- Auditors balance confidentiality and information security with public accountability and freedom of information.

Themes

8. Public Audit in Scotland, a joint publication from the Auditor General, the Accounts Commission for Scotland and Audit Scotland, sets out the common themes that will inform our work:

- Independence and impartiality to underpin effective audit.
- Consideration of strategic issues across the public sector to support learning and continuous improvement.
- Understanding of the environment in which public bodies operate to focus audits on where they will add most value.
- Openness in our work to help bodies understand more about our methods and processes.

Governance and structure

Governance

9. Effective governance is vital to Audit Scotland's long-term sustainable success. Audit Scotland aims to apply the same high standards of governance and operations to ourselves as we recommend for others.

10. The Public Finance and Accountability (Scotland) Act 2000 established Audit Scotland as a corporate body to provide assistance and support to the Auditor General and the Accounts Commission. The Board of Audit Scotland supports the Auditor General and the Accounts Commission in their statutory responsibilities and oversees how Audit Scotland manages and uses resources but is not involved in individual audit judgements.

11. The statutory arrangements provide for effective governance of Audit Scotland while preserving the independence of the Auditor General and the Accounts Commission in their statutory roles. Independent audit judgements are made by the Auditor General, the Accounts Commission, the Controller of Audit and appointed auditors.

12. Audit Scotland is accountable to the Scottish Parliament for its use of resources through the Scottish Commission for Public Audit (SCPA), a parliamentary body whose membership includes MSPs from all main parties, which scrutinises Audit Scotland's budget and annual report and accounts. The SCPA also appoints an external auditor.

13. The Act provides for a five-member board which has overall responsibility for the strategic direction of the organisation and for approving significant policies. The Board members during 2014/15 were:

    - an independent chair, John Maclean (from October 2014, Ronnie Cleland to September 2014), and two independent non-executive members, Ian Leitch and Heather Logan (from September 2014), who are appointed by the SCPA

    - the Auditor General, Caroline Gardner who is also the Accountable Officer for Audit Scotland. She was appointed by the Crown for a single fixed-term of eight years from 1 July 2012

    - the Chair of the Accounts Commission, Douglas Sinclair. The Accounts Commission is responsible for securing local authority audits and is independent of local government; the Chair and Commission members are appointed by Scottish Ministers.

14. The Board is supported by two committees:

    - An audit committee which supports the Board by reviewing the internal controls, risk management processes and governance arrangements. The committee oversees the appointment of internal auditors and considers the annual report and accounts and reports from both internal and external auditors. Heather Logan was co-opted to the committee prior to her appointment to the Board.

    - A remuneration and human resources committee which supports the Board in determining the remuneration of management team members and the remuneration

policies for all staff. The remuneration of the Auditor General is set by the Scottish Parliamentary Corporate Body. The remuneration of the independent board members is determined by the SCPA.

15. A management team oversees Audit Scotland's day-to-day operations. The members at 31 March 3015 were:

- Caroline Gardner, Auditor General

- Diane McGiffen, Chief Operating Officer, who chairs the management team meetings and is responsible for Audit Scotland's internal operations and business performance

- Russell Frith, Assistant Auditor General, who is responsible for the external strategic and development work of financial audit, as well as auditing and accounting standards, technical support and quality assurance. He advises on the appointment of auditors, the oversight of audit quality and provides guidance and advice on accounting, auditing and ethical matters to auditors. He acts as Audit Scotland's Ethics Partner and is supported by the Audit Strategy Group

- Fraser McKinlay, Director of Performance Audit and Best Value, who is also Controller of Audit and leads the Performance Audit and Best Value Group (PABV)

- Fiona Kordiak, Director of Audit Services, who leads Audit Services Group (ASG) which provides in-house audit services to the health, central government, further education and local government sectors.

In addition, Lynn Bradley, Director of Corporate Performance and Programmes, who was responsible for key areas of development including corporate knowledge and information management and corporate performance reporting, until June 2014.

Operational Structure

16. Audit Scotland's operational structure is based around four main business groups:

- ASG is responsible for carrying out audits of public bodies falling within the remit of the Auditor General and the Accounts Commission on a five year appointment cycle.

- PABV is responsible for providing a range of audit services to the Auditor General and the Accounts Commission. These include a programme of performance audits, Best Value (BV) audits of local authorities, audits of Community Planning Partnership (CPP), the preparation of statutory reports (S102 or S22), sectoral overview reporting and scrutiny improvement activity (including shared risk assessments).

- Audit Strategy is responsible for audit procurement, technical guidance and support, reviewing and reporting on audit quality, coordinating the National Fraud Initiative exercise in Scotland and conducting benefits performance audits of local government.

- Corporate Services is responsible for supporting Audit Scotland's principal functions with communications and media, finance, information services, human resources and organisational development, facilities management and business support.

17. The Auditor General and the Accounts Commission appoint the external auditors of public bodies in Scotland for periods of five years with the current appointments ending with the 2015/16 audits. Appointments to carry out annual audits are split between ASG staff and seven private firms; the latter carrying out just over a third of these engagements by value. The Appendix contains a break-down of sector appointments by firm. Performance and Best Value audits are generally carried out by Audit Scotland staff with assistance from appointed auditors or external experts where appropriate.

18. Audit Scotland has a workforce of 266 whole-time equivalent staff, over half of whom are in ASG. Staff are mostly based at offices in Edinburgh, Glasgow and Inverness. All staff complete annual "Fit and Proper" forms to ensure that conflicts of interest are avoided.

Finances

19. Audit Scotland submits annual budget proposals to the SCPA for consideration. The SCPA takes evidence in public on the proposals and then makes a report to the Scottish Parliament as part of the annual Budget Act approval process.

20. Audit Scotland's activities are funded through direct funding from the Scottish Consolidated Fund (2014/15: £7.1 million) plus audit fees paid by the audited bodies, bank interest, finance and miscellaneous income (2014/15: £17.4million).

21. Audit Scotland embarked on a four-year plan in 2010 to reduce the cost of audit by at least 20% in real terms by 2014/15. Audited bodies have received a cumulative real term reduction in fees of 23.5% over the period to the end of the 2013/14 audit year.

Quality

The components of a quality audit

22. In keeping with our vision to be a world-class audit organisation, our Quality Framework takes account of the five elements of a quality audit set out in the International Audit and Assurance Standards Board's (IAASB) *A Framework for Audit Quality*. The Framework states that:

A quality audit is likely to have been achieved by an engagement team that:
• Exhibited appropriate values, ethics and attitudes
• Was sufficiently knowledgeable, skilled, and experienced and had sufficient time allocated to perform the audit work
• Applied a rigorous audit process and quality control procedures that complied with law, regulation and applicable standards
• Provided useful and timely reports and
• Interacted appropriately with relevant stakeholders

Source: IAASB, A Framework for Audit Quality, Key Elements that Create an Environment for Audit Quality, IFAC, February 2014, Para 2

23. Our Quality Framework sets out how these important components are relevant to Audit Scotland's work. Key quality appraisal activities such as biennial audit quality surveys issued to audited bodies for feedback and internal or peer reviews of our work provide assurance on these criteria. The remainder of this report describes in more detail how Audit Scotland demonstrates these elements across its business groups through the quality control arrangements which have been put in place and the results of quality assurance activities during the year.

Quality arrangements

24. Our Corporate Plan confirms our commitment to operate to the highest ethical and professional standards and our aim to maximise the value of the audit and support improvement. This commitment is embedded in our Quality Framework which sets out the following principles:

- Quality is the responsibility of everyone in Audit Scotland.
- Our approach to quality will drive continuous improvement across Audit Scotland.
- Quality will be assessed in terms of outputs, outcomes and impact, as well as inputs and processes.

25. The overall quality framework is shown in **Exhibit 1** below:

Exhibit 1: Audit Scotland Quality Framework

Source: Audit Scotland

26. Getting it right first time is key to Audit Scotland being a high quality, efficient and effective audit organisation and requires that quality is embedded in all our thinking, our processes and our activities. Each member of staff in Audit Scotland has a responsibility to get it right first time, and needs to demonstrate a commitment to quality in everything they do.

27. Quality control refers to quality management during an audit or project. It may involve peer review and in some cases external input. There are four principal characteristics of quality control:

   • Review at regular intervals by staff internal or external to the organisation.

   • Regular internal challenge sessions.

   • Formal assessment of adherence to local quality processes.

   • Proportionality of quality control activities to maximise the quality and efficiency of work and allow staff to retain a sense of ownership.

28. Quality monitoring ensures that all types of audit work are reviewed and lessons are learned and used to improve processes and methodologies. The activities undertaken as part of quality control and quality monitoring are described in more detail in the sections below on quality arrangements and results of quality control activity.

29. The diagram below summarises the respective responsibilities within Audit Scotland for the key strands of audit quality:

Audit quality

Board
Setting the tone at the top
Quality framework

Audit Strategy
Oversight of quality arrangements
Surveys of audited bodies
Monitoring of firms' arrangements

Business groups and firms
Quality control arrangements
Quality monitoring of audits

Audit leads
Quality control of individual audits

30. Business groups are responsible for establishing the quality arrangements for their activities including the processes for getting it right first time, quality control and quality monitoring. Key documents are available to staff on the Audit Scotland intranet.

31. The Corporate Quality Group, with representatives from each business group, supports the maintenance of the Quality Framework and the preparation of this Transparency and Quality Report. It coordinates and shares best practice in quality monitoring and supports each business group's quality control and monitoring procedures. These arrangements are described in detail in the Appendix to this report.

32. The following sections of the report outline the results of quality control and monitoring activity during 2014/15 and developments in audit quality arrangements taking place in each business group. We are satisfied that the internal quality control systems described more fully in the appendix are operating effectively.

Sources of quality assurance

Assurance over the quality of audit is obtained from a variety of sources, which when combined provide reasonable assurance over the quality of audit work. The sources include internal arrangements, internal checks and external sources. These are set out in **Exhibit 2** on the basis of the Quality Framework. The operation of the assurances within the two principle business groups are mapped for ASG at **Exhibit 3** and PABV at **Exhibit 8**, with further detail on their operation in the **Appendix**.

Exhibit 2: Sources of assurance

Getting it right first time	•Audit methodology manuals •Audit software and standard documentation •Training for auditors
Quality control	•Management review of all audit work •Internal challenge of sample audits before completion
Internal quality monitoring	•Internal review of compliance on sample of completed audits •Examinations of high risk themes •Lessons learned from internal reviews
External quality monitoring	•External review on sample of completed audits/reports •Feedback from audit recipients •Professional institute regulation

Source: Audit Scotland

Results of quality assurance activity

Audit Services

33. ASG's quality management processes are fully documented in the audit guide embedded in MKI, which is used for all audits. **Exhibit 3** provides an overview of these arrangements, which are expanded upon in the **Appendix**.

Exhibit 3: Overview of ASG's quality management arrangements

Cold review (programmed)
Assurance to ASG that audit strategy is appropriate and complies with audit guide.

MKI and audit guide
Assurance to ASG that methodology is appropriate and complies with standards.

Peer review (risk based)
Assurance to Engagement lead that opinion is appropriate.

Managers' review (all)
Assurance to manager that work complies with audit guide and judgements are appropriate.

Engagement lead review (all)
Assurance to engagement lead that audit strategy is appropriate and supports the opinion.

Thematic/issues review (programmed)
Assurance to ASG that key themes/issues are consistently applied and work complies with audit guide.

Source: Audit Services Group

Thematic reviews

34. During 2014/15, ASG responded to the Financial Reporting Council (FRC) report on Materiality and the internal report by the Assistant Auditor General. For the most part this reinforced ASG's approach to materiality, although clearly trivial thresholds have been revised and planning and reporting templates were amended to increase disclosures to audited bodies. ASG staff were updated on changes made at the Annual Audit Update in November 2014.

Engagement lead reviews

35. All audits received engagement lead reviews, which confirmed that the audits had been carried out in accordance with the audit guide and quality arrangements.

Peer reviews

36. **Exhibit 4** shows the number of peer reviews planned and completed. The nine peer reviews carried out on 2013/14 audits were completed in a timely manner and confirmed that the audit opinions were appropriate.

Exhibit 4: Number of peer reviews planned/delivered each year

2012/13	2013/14	2014/15
10	9	8

Source: Audit Services Group

Cold reviews

37. **Exhibit 5** shows the number of cold reviews undertaken and planned during the current five year appointment.

Exhibit 5: Number of cold reviews planned/delivered each year

2011/12	2012/13	2013/14	2014/15	2015/16
8	10*	8	7	8

Includes 6 cold reviews carried out by ICAS

Source: Audit Services Group

38. The number of these cold reviews undertaken by the internal team is affected by the incidence of biennial external reviews undertaken by ICAS. The Institute of Chartered Accountants of Scotland (ICAS) quality monitoring team completed their second biennial assessment covering the 2012/13 audit year. The scope of their work was to:

- cold review a sample of six audits to assess the quality of audit work and compliance with the International Standards on Auditing (ISAs) and Ethical Standards

- review financial statement disclosures for the audited entities sampled

- review Audit Scotland's progress against the findings contained within the report issued in relation to the outcomes from their first assessment of 2010/11 audits.

39. The work of ICAS provided positive assurance, identified a relatively small number of areas for improvement and confirmed that previous recommendations had been implemented. ASG remains committed to procuring external review of audit work on a biennial basis.

40. Further external assurance is obtained from the Northern Ireland Audit Office (NIAO) and the Wales Audit Office (WAO) who have undertaken four of the 20 reviews since 2011/12.

41. The reviews of 2013/14 audits identified that all audits were complying with ISAs in all material respects. The following areas for improvements were identified in a small number of audits:

   - Documentation of reliance on internal audit.

   - Rationale for use of materiality level and timeliness of reassessment.

   - Tracking of audit risks throughout the life of the audit.

   - Timeliness of file review and closure.

Appointed firms

Financial Reporting Council Audit Quality Review Reports

42. The FRC's Audit Quality Review team (AQR) issued public reports in May 2014 for three and February 2015 for a further one of the seven firms which undertake audits for the Accounts Commission and the Auditor General:

   - PricewaterhouseCoopers

   - Deloitte

   - KPMG

   - Grant Thornton.

43. The reports cover the firm-wide systems, policies and processes for ensuring audit quality, and a sample of their audits of public interest entities. In its inspections, the AQR team monitors firms' compliance with Auditing Standards, Ethical Standards and Quality Control Standards. The FRC has also produced an annual report summarising all of its inspection work. This brings together common findings and examples of good practice.

44. The four firms' public reports show a better combined performance when compared to the sample of firms overall inspected by the AQR team, with 70% of the audits sampled being assessed as *good with limited improvements required* (58% for the whole population), 20% as *acceptable overall with improvements required* (25%), and 10% *requiring significant improvement* (17%). The results are broadly consistent with the previous year.

The Institute of Chartered Accountants of Scotland Audit Monitoring

45. The three appointed firms outwith the AQR inspection scope (Scott-Moncrieff, Wylie & Bisset and Henderson Loggie) are registered by ICAS to carry out audit work and fall within its audit monitoring responsibilities. ICAS's Annual Audit Monitoring Report for 2014 provides indirect assurance about compliance by these firms with auditing standards.

Firms' own quality control results

46. Firms carried out six quality control inspections relating to public sector audits procured for the Auditor General or Accounts Commission. All six reports concluded that the audits inspected complied with ISAs in all material respects but identified areas for improvements.

47. Annual transparency reports published by the five largest firms which provide external audit work for the Auditor General and the Accounts Commission were obtained and reviewed to

ensure the information within them was consistent with Audit Strategy's understanding of quality arrangements within these firms. The FRC's AQR team also read the firms' transparency reports during their audit inspections. The transparency reports and the FRC's findings do not report any areas for concern.

Appointed auditors

48. Audit Strategy reviews reports of regulatory bodies about the quality of audits performed by appointed firms. Most firms use consistent methodologies across all their audit work and therefore the results of their reviews provide useful information about the quality of the firms' work on public sector audits.

Review of audit outputs

49. A sample of 62 2013/14 annual audit reports (60 in 2012/13) was reviewed by Audit Strategy for their compliance with the Code of Audit Practice, and as an assessment of the quality of reporting to the audited bodies. The review covered all sectors and all audit providers.

50. The key findings from the product read exercise were that reports complied with the Code on the whole and were of a good quality. Examples of good practice and areas for improvement, including a checklist to help with compliance, were reported back to auditors in March 2015.

Audit service quality surveys

51. Audit service quality surveys were issued to 23 health boards and 20 further education colleges asking for feedback on the 2013/14 audits. Response rates were 65% and 70% respectively.

52. The key indicators are:
   - what audited bodies thought of the quality of service provided by the auditors
   - whether the audit had made an impact on the bodies in the four areas defined in Audit Scotland's corporate impact framework
   - whether relevant national performance reports had had an impact on the body.

53. A summary of the responses received is shown in **Exhibit 6**. The feedback was significantly positive in terms of the quality of audit service delivered and the overall impact of audit work. The impact of national performance reports is reported in more detail at paragraph 68 to 71.

Exhibit 6: High level results of audit service quality surveys

	Health boards % positive responses	Further education % positive responses
Overall quality of service	87	100
Overall audit impact	73 (Finance Directors) 75 (Audit Committee Chairs)	100 (Finance Directors) 93 (Audit Committee Chairs)
Impact of audit on:		
• Financial sustainability	47	77
• Transparent reporting of financial & other performance	64	85
• Value for money	43	67
• Governance & financial management	79	92

Source: Audit Strategy

54. A number of colleges commented on the helpfulness demonstrated by their auditor as they managed the reclassification of the further education sector by the Office for National Statistics and the impact of this reclassification on accounting periods.

Thematic work

55. Audit Strategy carried out a review of materiality in 2014 following up on the FRC's thematic review of the same topic. The review applied the principles of the FRC review to audits carried out under appointment, leading to recommendations to improve consistency of maximum materiality levels, and improve disclosure of materiality, planning materiality and levels of errors to be disclosed to audited bodies.

56. Audit Strategy conducted a review of auditors' opinions in 2015 to ensure compliance with the model auditor's reports provided by Audit Scotland and ensure that terminology was suitably tailored to the audited body's financial statements. The findings were discussed with auditors to ensure that future opinions followed the model auditors' reports by clarifying the expectation of auditors to comply with the model opinions, and more clearly signposting where local variations should be reflected.

Output monitoring

57. **Exhibit 7** sets out the key outputs from the audits of the 2013/14 financial statements.

Exhibit 7: key outputs by sector

	Local government	Health	Central government	Further education
Audit opinion on time	30 Sept 14 76/76 **(100%)**	30 June 14 22/23 **(96%)**	31 Oct 14 72/74 **(97%)**	10 Oct 14/ 31 Dec 14 20/22 **(91%)**
Annual audit report on time	31 Oct 14 66/76 **(87%)**	31 July 14 21/23 **(91%)**	30 Nov 14 64/74 **(86%)**	10 Oct 14/ 31 Dec 14 20/22 **(91%)**
Accounts sent for laying on time	N/A	31 Dec 14 23/23 **(100%)**	31 Dec 14 74/74 **(100%)**	31 Dec 14/ 30 April 15 21/22 **(95%)**

Source: Audit Strategy

Oversight of acceptance of non-audit work

58. Audit Strategy approved a small number of requests for non-audit work during 2014/15, having assessed them against current Ethical Standards and obtaining assurance that the independence of the external auditors would not be compromised. All such requests were accompanied by express assurance that the firm's designated Ethics Partner had reviewed the proposed work and did not consider it to pose any threats to the auditor's independence.

Respond proportionately to complaints about auditors and audit work

59. Audit Scotland operates a complaints handling process which conforms to the complaint handling procedures set out by the Scottish Public Services Ombudsman. Complaints are systematically analysed, investigated and reported to Management Team and the Board. There have been no complaints by audited bodies about the quality of work undertaken by auditors this year. This is an important element of the overall assurance on the quality of auditors' work.

Consideration of conflicting audit judgements between auditors

60. There have been no conflicting judgements between auditors this year leading to different audit opinions being given. Guidance on key technical matters to inform auditors' judgement has been provided by the Technical Services Unit (TSU). In addition, in the course of the year, there have been regular sectoral meetings and technical forums involving auditors from each of the four sectors where emerging or contentious technical issues were discussed.

Performance Audit and Best Value

61. PABV's quality management processes are fully documented in the PABV Audit Management Framework, which is used for all performance audits, Best Value audits, *How councils work* reports, overview reports, Community Planning Partnership audits and statutory reports based on annual audit reports. **Exhibit 8** provides an overview of these arrangements. The arrangements are expanded upon in the **Appendix**.

Exhibit 8: Overview of PABV's quality management arrangements

Lessons learnt review and impact analysis (all)

Assurance to PABV that opportunities to improve audit processes, implement more effective methodologies and better understand how our work can make a difference are being identified.

PABV Audit Management Framework

Assurance to PABV that all pieces of audit work are being managed consistently and in line with agreed QA and QC processes.

Peer review (risk based)

Independent review and challenge on the appropriateness of selected performance audit topics, audit methodologies and the quality of audit reports.

Senior managers' review (all)

Assurance to director/ assistant director that work complies with audit guide and judgements are appropriate.

Assistant director review (engagement lead) (All)

Assurance to engagement lead that the audit scope, approach and proposed reporting format is appropriate and reflects identified audit risks.

Quality and Consistency Review (QCRP) (All BV and CPP work)/audit advisory group (performance audit)

Assurance to PABV that work is proportionate, and risk-based; audit judgements are consistent and recommendations will add value.

Source: Performance Audit and Best Value

Assistant director review

62. Assistant directors carried out reviews on the audit work for the 29 reports published in 2014/15. The reviews confirmed that the work had been carried out in accordance with the PABV Audit Management Framework and quality arrangements and met their audit objectives.

Peer review

63. PABV continues to participate in peer review of performance audit reports with the UK partner audit agencies (NAO, NIAO, and WAO). The main Audit Scotland report that was subject to

peer review during 2014/15 was *Procurement in councils*. The findings were positive, with particular emphasis on the clarity of audit judgements, good use of data and case studies, and the strength of the evidence base to support audit recommendations. A small number of relatively minor areas for potential improvement were identified. These included the need for greater precision in the use of the term 'significant' (ie, whether or not the term means statistically significant) and the need to address a technical accessibility problem when performance audit reports are converted from PDF to text format. PABV staff also provided peer review feedback on the WAO audit reports on *The Management of Chronic Conditions in Wales*, and *Young people not in education, employment or training* (July 2014).

Benchmarking against the IAASB framework for audit quality

64. During 2014/15, the quality and impact group reviewed PABV's arrangements for managing audit quality against the IAASB *A Framework for Audit Quality*. The key findings from that review work are set out in **Exhibit 9**.

Exhibit 9: PABV's quality management arrangements assessed against the IAASB quality framework
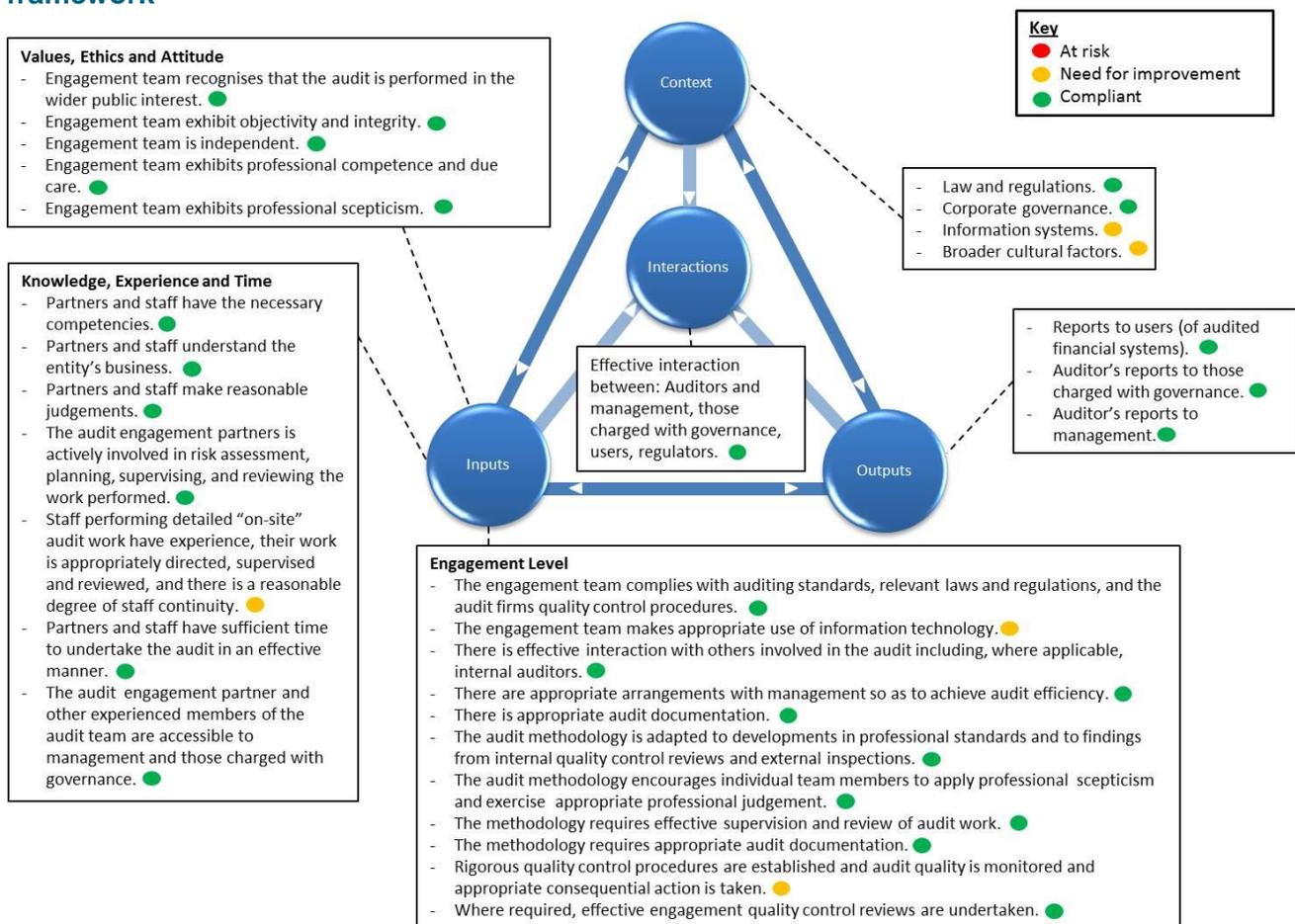
Source: Performance Audit and Best Value

65. The key issue arising from this review work was that while overall PABV's approach to managing audit quality is comprehensive, it could be improved further by:

- improving PABV's approach to risk-assessing audits and deploying staff appropriately, to better demonstrate compliance with the risk assessment, skills and competence and staff continuity requirements of the IAASB framework

- establishing a system for quality monitoring 'cold' reviews of a sample of PABV audits to independently assess compliance with PABV's audit management framework to better demonstrate compliance with the audit quality control procedures requirements of the IAASB framework

- providing consistent induction training on audit quality for all staff in PABV so that Audit Scotland's values, ethics and attitudes to quality, and PABV's audit quality management arrangements are effectively communicated to all staff before they start any audit work

- ensuring that all staff in PABV receive appropriate and well tailored ongoing training and support in relation to: managing audit evidence; demonstrating professional scepticism; and making and reporting clear audit judgements

- improving the visibility of quality management and more effectively communicating the outcomes of quality review work within PABV to raise the profile of quality and set the right 'tone from the top'

- ensuring that interaction with management and those charged with governance in audited bodies and service users improves based on developing the policy portfolio cluster work

- ensuring that the new approach to World Class programme development considers the specific requirements that apply to public sector audits

- making more effective use of ICT as part of audit work.

Impact assessment and reporting

66. PABV published three impact reports during 2014/15:

- *Early departures* (original audit report published May 2013)

- *Reducing reoffending in Scotland* (original audit report published May 2014)

- *Health inequalities in Scotland* (original audit report published June 2014).

67. Key themes that emerged from impact reporting were the importance of ensuring that findings and recommendations are effectively communicated to the people with the authority and ability to lead and implement change and improvement, that interest in all of Audit Scotland's work spreads well beyond the primary audience of the Public Audit Committee (eg consideration of the Health inequalities report at the Health and Sport Committee), and the regular citing of Audit Scotland reports in parliamentary questions and ministerial responses.

Audit service quality survey results

68. Audit service quality surveys that were issued to NHS and further education bodies following the 2013/14 audits included questions on the value and impact of performance audit reports. The responses are summarised in **Exhibit 10**.

Exhibit 10: Audit service quality survey results NHS and further education bodies

Did the report help you manage and improve your services by:	NHS Financial Performance 2013/14 (%)	Accident & Emergency (%)	Reshaping care for older people (%)	Scotland's colleges 2013 (%)
better understanding of financial sustainability	67	56	88	83
more transparent reporting of financial and other performance	75	60	86	85
our body providing better value for money	45	70	43	73
improved governance and financial management	92	70	67	85

Source: Audit Strategy Group

69. The service quality surveys also include free text comments from respondents. A sample of representative quotes is set out in **Exhibit 11**.

Exhibit 11: Selection of quotes about performance audit reports

Scotland's colleges 2013

"… provided useful information for benchmarking and value for money purposes"

"informed us with regard to the sector's financial sustainability"

NHS Financial Performance 2013/14

The benchmarking… "was useful in terms of transparent reporting and governance issues"

The report was "used… in our ongoing review of resources and patient flows"

Accident and Emergency

"We are a national health board and are not patient facing. This report will not have a direct impact on our organisation"

"The report informed our clinical strategy work around health & social care integration"

Reshaping care for older people

"This was an excellent piece of work that generated a number of questions within our local context to help us understand better our local variation and how this impacted on outcomes and resource/service utilisation"

"It gave us better context within which to evaluate recent local redesign"

Source: Audit Strategy Group

70. Overall the results of the 2013/14 surveys suggest that satisfaction with performance audit reports is high. However, a number of bodies, particularly special health boards expressed a view that performance audits often do not help them and therefore the fee mechanism in which a proportion of their fee paid for such audits was unfair.

71. The key issue from this feedback is the need to improve support to local auditors in communicating the messages arising from national reports. This will feature in programme development work.

Accounts Commission sponsor and Auditor General reviews

72. Where the Accounts Commission are report sponsors and reports are published by the Auditor General, assurance is obtained directly by the report sponsors and the Auditor General as part of their arrangements to review planned work and final drafts of the reports. Learning points from these reviews have been fed into the lessons learned reviews.

73. In addition, members of the Accounts Commission met with representatives of seven audited bodies following the publication of audit reports during 2014/15. The meetings focussed on key audit findings, the audited bodies' response to those issues and feedback from the audited bodies on the audit process itself. Feedback from the audited bodies has been positive and constructive.

Controller of Audit quality feedback from audited bodies

74. The Controller of Audit (Fraser McKinlay) met with 11 local authority chief executives during 2014/15 to hear about their issues and priorities and to gather feedback on their experience of local external audit. Those discussions offered useful quality feedback on PABV's Best Value audit work, performance audits, the Accounts Commission's *How Councils Work* series of publications and the effectiveness of the shared risk assessment process, all of which have been fed in to PABV's quality and impact group for consideration and, where appropriate, action.

75. The key quality issues arising from those meetings were:

- Overall very positive feedback was given on the quality of external audit support received by councils and on the work of Audit Scotland and the Accounts Commission nationally.

- Strong support was expressed for the Accounts Commission's *How Councils Work* series of reports that highlight good practice and offer opportunities for self-evaluation by councils.

- The broader impact that individual Best Value audit reports have on the wider local government community was a common theme.

- There is strong support within the local government community for the SRA process, but the need to better join up some aspects of national scrutiny was identified by several chief executives.

- Opportunities were identified for more engagement with councils on the local implications of the findings of national performance audit reports.

Quality feedback from the Scottish Parliament's Public Audit Committee

76. The feedback received from the Public Audit Committee on the quality of Audit Scotland work has been consistently positive, as is shown by the following recent quotes from committee members:

- *"Their work is exceptional. It is of the highest professional quality, and it is incisive and concise, which is always helpful. To be frank, we could not do our work without that input from Audit Scotland."* Hugh Henry, Wednesday 14 December 2014, Public Audit Committee.

- *"One assumes that Audit Scotland is just about numbers, but I am impressed by your knowledge of cables and various other things, too. You have done very well in answering our questions."* Sandra White, 11 March 2015, Public Audit Committee (Discussing the Broadband report).

- *"I thank Audit Scotland for pushing this agenda really hard, because it is very important"* Tavish Scott, 1 April 2015, Public Audit Committee, (Discussing Borrowing and Treasury Management).

77. Even when feedback is positive there remains scope to improve. An important element of PABV's World Class programme development will be refining and improving arrangements for engagement with the PAC and other parliamentary committees that have an interest in Audit Scotland's work.

Developments in audit quality arrangements

Audit Services: Developments

78. ASG has a well-established framework for delivering audits which complies with relevant auditing standards. In 2014 ASG continued to streamline the audit approach in order to reinforce the importance of focussing on judgements, professional scepticism and de-clutter audits.

79. ASG's electronic working papers package, MKI, is now well-established across all teams in ASG. Its usage, along with the audit guide (updated in June 2014) ensures consistency of working practices across ASG. MKI also helps to ensure transparency of work and access enabling members of the Business Improvement Unit to interrogate all of the work undertaken by ASG.

80. ASG teams introduced combined ISA260/Annual Audit Reports Across a significant number of central government audits, with earlier conclusion of the audit as a consequence. This was universally welcomed by the audited bodies affected and will be extend to all 2014/15 audits. ASG also introduced clearer reporting of audit risks, related audit activity and judgements in all Annual Audit Reports.

81. ASG combined the Quality Team and the Professional Standards Group into one Professional Standards and Quality Improvement Group (PSQI) toward the end of 2014. The objective of the change is to provide a much clearer 'feedback loop' between quality review processes and the audit approach. This will help 'engineer-out' quality issues through improvements in the underlying approach. PSQI will develop an aspect of quality review focused on thematic issues based on interrogation, and the quality responses will be far-wider than reporting and individual action plans. This wider approach is expected to include targeted training at an individual or team level and ASG-wide training.

Audit Strategy: Developments

82. Audit Strategy has developed a quality scorecard which gathers together the various strands of quality monitoring activities for each of the audit providers. The scorecard provides a clear overview of the work of audit providers and enhances feedback discussions with auditors to support quality assurance.

83. Audit Strategy began carrying out thematic work to support improved audit quality and consistency. The use of thematic work will be further developed, working in conjunction with ASG's PSQI to help identify risk areas and avoid duplication of effort.

Performance Audit and Best Value: Developments

84. A PABV quality and impact group was established in 2014 to streamline quality processes in a single *Quality Framework*. The terms of reference of the group are to: "oversee our management of audit quality and ensure that we maximise the impact of our work." The main focus of the quality and impact group during 2014/15 has been on:

- implementing a single framework for managing quality consistently across PABV

- benchmarking PABV's approach to managing quality against the IAASB's *Framework for Audit Quality*

- considering corporate impact group proposals to enhance the promotion and generate greater impact from PABV national reports

- refreshing PABV's approach to impact reporting to Management Team and the Accounts Commission's Performance Audit Committee.

85. Responsibility for overseeing audit quality management within PABV will be separated from PABV's approach to supporting the corporate *'making a difference'* agenda which is part of Audit Scotland's broader becoming World Class audit ambitions. Creating two distinct groups will allow work to spread more widely across the group, creating greater capacity for change. Some cross-membership of the two groups will be encouraged so that synergies between these two linked agendas are identified and the benefits of these are maximised.

86. These changes will give PABV the capacity and impetus to make the strategic shifts needed to deliver World Class quality management and make a difference during 2015/16.

87. During 2014/15, PABV began a project to improve its approach to programme development. Securing greater impact from audit work lies at the heart of this new approach to improving programme development. The key strands of the improvement agenda underpinning this programme of work are set out in **Exhibit 12.**

Exhibit 12: Implementing World Class programme development in PABV

- Programme of regular appraisals
- Key outputs (inc papers for AGS/AC)
- Taking a longer term view
- A **process** for developing a World Class programme in PABV
- Engagement with Auditor General/ Accounts Commission/ Public Audit Committee
- External and internal engagement
- Ongoing programme of work to support programme development

BECOMING WORLD CLASS
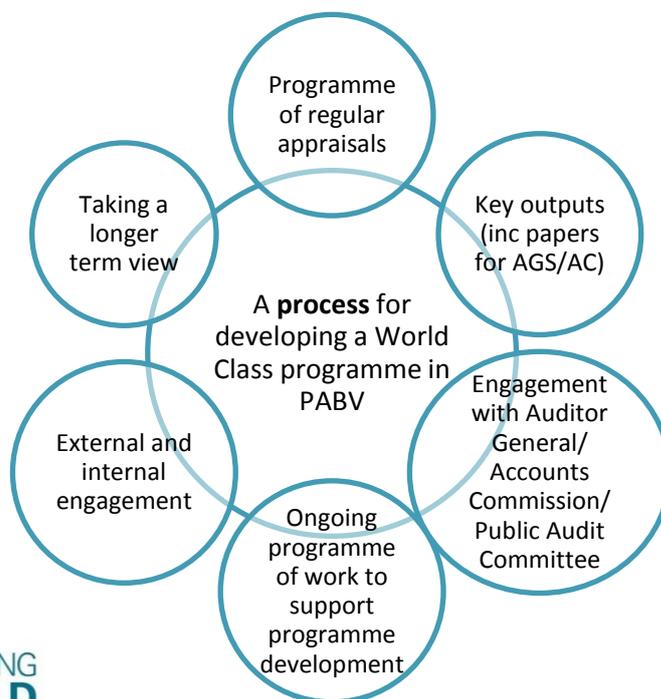
Source: Performance Audit and Best Value

88. Audit Scotland is a member of the UK audit agencies peer review forum. All the agencies have agreed that there is a need to refocus the joint QA work to ensure that it is generating greater learning and added value for everybody concerned.

Conclusion

89. Overall, the arrangements in place and activity for the year provide assurance that Audit Scotland and the appointed firms continue to provide the Auditor General and the Accounts Commission with quality work.

90. In particular, the quality appraisal work carried out by Audit Strategy on the work of the firms and ASG has confirmed that each auditor:

- understands and complies with the Ethical Standards in force during the course of the audit and is independent of the audited body

- has the required professional competence to carry out the audit in accordance with relevant standards and the Code of Audit Practice

- operates in a regulatory environment that actively oversees auditors

- has delivered audit opinions that can be relied upon

- delivered timeous reports which have met the needs of a majority of key stakeholders.

91. The audits undertaken by ASG and the firms would therefore satisfy IAASB's definition of a quality audit (as per paragraph 22 above).

92. The report demonstrates that arrangements across Audit Scotland's business groups are continuing to develop, with the aim being to ensure that the quality monitoring framework remains effective.

Appendix: Quality arrangements

This appendix summarises the quality arrangements in place across the organisation.

Audit Services: Quality arrangements

ASG's framework covers financial audit, ethical and quality standards as required by the FRC. The foundation of ASG's quality framework is the ASG audit guide, which incorporates the application of professional auditing, quality and ethical standards together with the Code of Audit Practice, into an audit methodology which is used across all audits in ASG. The audit guide is supported by a number of guidance notes on specific issues such as audit testing guidance.

The PSQI, which consists of staff members from across ASG and reports directly to ASG's management team, oversees the development of the audit guide and the integration of any new standards into ASG's audit approach. The audit guide is kept under review and was most recently updated in June 2014.

In addition to complying with the audit guide, auditors are required to complete audit engagements using a software tool called MK Insight (MKI), an electronic working paper package which allows them to document their work to provide evidence of compliance with relevant auditing standards. The package also incorporates appropriate levels of supervision and management.

ASG carries out Peer Reviews in accordance with ISQC1 requirements to perform engagement quality control review for all audits meeting certain criteria. The criteria for selection includes the level of fee income (size), assessed risk and where any modification to the audit opinion is expected

Peer reviews are undertaken by Assistant Directors/ Director within ASG before audit reports (certificates) are issued and concentrate on identified audit risks, audit responses, and adequacy of evidence and judgements. Any significant issues are resolved by the certifying auditor before an auditor's report is issued. Peer reviewers have no involvement with the audit in the current or recent financial years, in line with ASG's rotation policy.

ASG operates a rotation policy which complies with the Ethical Standards. The policy is designed to reinforce auditor independence by rotating key senior staff every five years and thus protect against threats to independence such as over-familiarity with management at an audited body. ASG staff must complete an annual fit and proper declaration which covers time spent on particular audits as well as compliance with Audit Scotland's Code of Conduct.

Quality reviews are undertaken by a subgroup of experienced senior staff from PSQI. Each year the team undertakes 'hot' and 'cold' reviews of audits. Hot reviews are carried out during the live audit process, focusing on judgements and risks, primarily at the planning stage of the

audit and ensuring that audits are carried out in accordance with ASG's audit guide. Cold reviews are undertaken after the issue of the audit report and cover the same issues, but with additional work which looks more broadly at the wider conduct of the audit including the soundness of the audit opinion and the impact on the public body.

ASG has a programme of cold reviews which aims to ensure that all financial audit engagement leads are subject to review over the portfolio appointment period, supplemented by periodic external reviews. The audits selected for coverage are based on a combination of the risk profile of the audit, planned coverage of engagement leads and a mix of sectors.

The managers and teams responsible for individual audits reviewed are provided with reports on the findings of the review and provide responses to the findings in each report, often resulting in actions for improvement for each team.

As part of the review process, PSQI works with other UK audit agencies. The Northern Ireland Audit Office (NIAO) and the Wales Audit Office (WAO) undertake a small proportion of ASG's reviews, with Audit Scotland's staff providing reciprocal reviews of NIAO and WAO audits.

In addition to providing ASG with further external assessment of its work, these reciprocal cold reviews provide the PSQI members with the opportunity to identify differences in approach among the UK audit agencies and to bring back examples of good practices or to challenge existing practices.

PSQI considers the findings from the reviews and identifies where changes to audit methodology, audit programmes and reporting are required. Changes are then implemented across the ASG through revisions to the audit guide, MKI audit programmes, reporting templates and through training events such as streamlining technical sessions and the Annual Audit Update.

The work of PSQI incorporates mandatory annual practitioner updates for all ASG staff. These annual update sessions provide training on changes to the audit guide and developments in auditing and professional standards. In 2013, ASG undertook a more wide ranging review of its audit approach in which it sought to reinforce the importance of focus on judgements and professional scepticism and help de-clutter audits.

ASG management team and PSQI consider and respond to any reviews or reporting of audit approach or quality issued by Audit Strategy.

Appointed Firms: Quality arrangements

At the start of the five year audit cycle in 2011/12, all the appointed audit firms were also required to complete a detailed questionnaire setting out how their quality arrangements complied with ISQC1. As part of this initial process, the firms and ASG submitted details of their internal quality monitoring activity for the audits which they would carry out under their appointment by the Auditor General and the Accounts Commission.

Where firms plan to undertake any non-audit work for the audited bodies to which they have been appointed, they must declare to Audit Strategy that they consider such work permissible

under Ethical Standards. Audit Strategy reviews any such assertions and permits non-audit work only where it agrees that the work is consistent with Ethical Standards. This review enhances the independence and ethical conduct of the audits.

During 2014/15 the firms under appointment from the Auditor General and the Accounts Commission completed the following 2013/14 audits:

No of audit appointments: Firm	Central government	Local government	Health	Further education	Total
KPMG LLP	9	9	-	4	**22**
PWC LLP	10	7	4	-	**21**
Scott-Moncrieff	-	2	7	5	**14**
Grant Thornton UK LLP	6	3	-	3	**12**
Deloitte LLP	1	5	3	-	**9**
Henderson Loggie	-	-	-	5	**5**
Wylie & Bisset LLP	-	-	-	4	**4**
Total	**26**	**26**	**14**	**21**	**87**

Audit Strategy: Quality arrangements

Audit Strategy carries out a quality appraisal function for all financial audits conducted under appointment from the Auditor General and the Accounts Commission by the firms and ASG. This work is described in detail in Audit Strategy's Quality Appraisal Framework which was approved in May 2012.

The principal objectives of the quality appraisal work are to:

- provide assurance to the Auditor General and the Accounts Commission on the quality of audit work undertaken

- promote improvements and good practices in auditing.

Audit Strategy carries out a number of activities in its monitoring role:

- Reviews firms' and ASG's quality arrangements including Transparency reporting by firms.

- Reviews external assurance, in particular reports issued by the FRC's AQR team on professional firms as well as monitoring reports produced by ICAS.

- Reviews and assesses audit outputs, giving feedback to auditors on examples of good practice and areas for improvement.

- Issues audit quality surveys, audited bodies in each sector being asked for their views every two years, and reports findings to auditors and to Management Team.

- Monitors audit outputs for timeliness and completeness.

- Oversees acceptance by firms of non-audit work.

- Responds proportionately to complaints about auditors.

- Considers the impact of conflicting audit judgements between auditors.

- Independently reviews audits.

The results of these activities are reported in the 'Results of Quality Assurance Activity' section in the main body of this report.

The IAASB's *A Framework for Audit Quality* highlights the importance of access to high quality technical support. Auditing requires knowledge of a considerable number of technical areas including financial reporting, auditing standards and legislation. The TSU is a small team of technical specialists who keep financial auditors up to date with developments and provide guidance and assistance on complex areas to inform auditors' judgement and support the exercise of professional scepticism.

None of the measures in place provides absolute assurance for any of the elements of the quality appraisal framework. However, absolute assurance cannot be gained, nor is it an aim of the framework to do so.

PABV: Quality arrangements

Arrangements for managing the quality of performance audits draw on a comprehensive project management framework (PMF) that covers each key stage of a performance audit from project selection, audit design, fieldwork and reporting through to post-audit review and impact assessment. The PMF is supported by the in-house performance audit manual and performance audit standards which comply with INTOSAI standards. A comprehensive library of good practice guidance is also available to staff to support their work.

Performance audits, BV audit work, the SRA process, audits of CPPs, statutory reports (S102 or S22), local government overview reports, reports in the *How Councils Work* series, statutory performance reporting and dealing with correspondence from the public, including MPs and MSPs, are covered by the Quality Assurance Framework.

The quality framework is supported by a range of processes, procedures and guidance, including BV toolkits, which provide guidance and direction for staff carrying out BV audit work. The BV toolkits are also available on the Audit Scotland website to ensure openness and transparency and help support improvement activity within audited bodies.

All audit work includes internal and external peer review and challenge, and makes extensive use of independent external evaluation when major new audit developments are introduced, eg CPP audits. All audit teams carry out a 'lessons learned' review following audit work to

identify potential improvements to the audit process for future work. These are supplemented by 'reviews of project reviews' where common issues identified in post-project reviews are discussed by the Group along with potential systems-wide improvements and/or solutions.

The Auditor General and the Accounts Commission are the key stakeholders for PABV reports. Both are involved at the planning and reporting stages of the work to provide input to help ensure that the audits are of a high quality and will meet their needs.

The Public Audit Committee (PAC) of the Scottish Parliament is a key stakeholder for all of the work that is undertaken on behalf of the Auditor General, and for joint work that is undertaken on behalf of the Auditor General and the Accounts Commission. PABV consults the PAC on performance audit work programmes and works hard to ensure that audit reports provide the committee with the evidence that it needs to exercise its role of scrutinising the expenditure and performance of public bodies that fall within its remit.

Glossary

AQR - Audit Quality Review, part of the FRC's audit monitoring activity, responsible for monitoring the audits of all listed and other major public interest entities.

ASG - Audit Services Group, part of Audit Scotland with responsibility for carrying out audits of public bodies falling within the remit of the Auditor General and the Accounts Commission on a five year appointment cycle.

BV - Best Value is a duty of audited bodies or accountable officers; it is defined in statute for local authorities as continuous improvement in the performance of functions. In securing Best Value local authorities are required to balance issues of quality and cost, have regard to efficiency, effectiveness, economy and the need to meet equal opportunity requirements, and contribute to the achievement of sustainable development. A BV audit is one which examines BV and Community Planning.

CPP - Community Planning Partnerships, a process by which councils and other public bodies work together, with local communities, businesses and voluntary groups, to plan and deliver better services and improve the lives of people who live in Scotland. It was given a statutory basis by the Local Government in Scotland Act 2003. PABV conducts audits on the effectiveness of CPPs.

Ethical Standards - Ethical standards are a set of basic principles and essential procedures together with related guidance in the form of explanatory and other material covering the integrity, objectivity and independence of auditors.

FRC - Financial Reporting Council, the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment. It monitors and enforces accounting, auditing and ethical standards, oversees the regulatory activities of the professional accountancy bodies and operates independent disciplinary arrangements for public interest cases involving accountants and actuaries.

IAASB - The International Audit and Assurance Standards Board, an independent standard-setting body that serves the public interest by setting high-quality international standards for auditing, assurance and other related standards, and by facilitating the convergence of international and national auditing and assurance standards.

ICAS - The Institute of Chartered Accountants of Scotland, the first professional accountancy body, it was established by Royal Charter in 1854. ICAS regulates members and firms.

INTOSAI - The International Organisation of Supreme Audit Institutions, an umbrella organisation for the public sector external audit community.

ISA - International Standards on Auditing, the professional standards for the performance of financial audit of financial information. ISAs are issued by the International Federation of Accountants (IFAC) through IAASB and are approved for use in the UK, with any necessary adaptations, by the FRC and are referred to as ISAs (UK and Ireland).

ISQC1 - International Standard on Quality Control 1, the professional standard for quality control, as with the ISAs, issued by IFAC through IAASB and approved for application in the UK by the FRC.

NAO - National Audit Office, responsible for auditing central government in England to hold government department bodies to account and help public service managers improve performance and service delivery.

NIAO - Northern Ireland Audit Office, responsible for auditing central government and local government in Northern Ireland; it also carries out value for money audits, reporting to the Northern Ireland Assembly.

PABV - Performance Audit and Best Value Group, part of Audit Scotland with responsibility for providing a range of audit services to the Auditor General and the Accounts Commission including a programme of national performance audits, Best Value (BV) audits of local authorities, audits of CPP, the preparation of statutory reports (S102 or S22), sectoral overview reporting and scrutiny improvement activity (including shared risk assessments).

PSQI - Professional Standards & Quality Improvement Group, part of ASG responsible for overseeing the development of the audit guide, the integration of new standards into ASG's audit approach, and carrying out internal hot and cold reviews of ASG audit work.

SCPA - Scottish Commission for Public Audit, a Parliamentary body which is responsible for scrutinising Audit Scotland's budget, annual report and accounts and for appointing an external auditor.

SRA - Shared Risk Assessment, a process involving a joint approach using key information about a body to plan scrutiny activity that is proportionate and based on risk. SRA is undertaken by a joint scrutiny network of senior officers from a range of audit and inspection agencies including Audit Scotland, Education Scotland, The Care Inspectorate, The Scottish Housing Regulator and the appointed auditors, leading to the preparation of an assurance and improvement plan (AIP).

TSU - Technical Services Unit, part of Audit Strategy Group, responsible for providing authoritative guidance and practical assistance to external auditors appointed by the Accounts Commission and Auditor General to support them in carrying out their responsibilities under the Code of Audit Practice. TSU's support enhances auditor judgement in technical matters and thereby improves the quality of the audit delivered.

WAO - Wales Audit Office, responsible for supporting the Auditor General for Wales by Auditing the financial accounts of Welsh public bodies, reporting on how services are being delivered, assessing whether value for money is being achieved and checking how organisations are planning and delivering improvements.

Transparency and quality
Annual report 2014/15

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AUDIT SCOTLAND

MEETING 13 AUGUST 2015

JOINT REPORT BY SECRETARY TO THE COMMISSION AND DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

FOLLOWING THE PUBLIC POUND

Purpose

1. This report provides an update to the Commission in response to its request for a range of further actions to be taken in respect of arms length external organisations (ALEOs) including communication to councils and external auditors on this topic and consideration of how the role of ALEOs might be reflected in the Shared Risk Assessment process.

2. In particular, it outlines the findings of a review of the Code of Guidance for Funding External Bodies and Following the Public Pound ('the FtPP Code'). The report also makes recommendations for the future assessment of councils' compliance with the FtPP Code to be incorporated as part of the new integrated Best Value audit approach.

Background

3. At its meeting on 15 January 2015, the Commission considered a report from the Secretary to the Commission introducing a briefing by the Director of Performance Audit and Best Value on the use, and governance, of ALEOs by local authorities.

4. The Commission noted the findings of the briefing and agreed to undertake the following actions:

   - As a priority, send a letter to councils encouraging them to apply good practice more consistently across ALEOs, highlighting the importance of strong governance for ALEOs - particularly around minimising potential conflicts of interest, ensuring regular and proportionate monitoring, and including clauses for review and termination of funding agreements.

   - Send a guidance note to external auditors of councils to assist in their audit of councils' governance and funding arrangements with ALEOs, drawing particular attention to the practical guidance in the FtPP Code.

   - Undertake, by Autumn 2015, a review of the Following the Public Pound code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies.

   - Promote a stronger consideration of ALEOs in scrutiny work, particularly through Shared Risk Assessment work and the development of the refreshed arrangements for auditing Best Value.

   - Support training and information events for the local government community, for example seminars and conferences involving Audit Scotland, OSCR, COSLA and the Improvement Service, including reference to, as appropriate, the Commission report in its *How Councils Work* series on ALEOs.

   In undertaking the above actions, the Commission noted that there should be appropriate engagement with COSLA and the Scottish Government as well as with the Society of Local Authority Lawyers and Administrators in Scotland (SOLAR).

5.   This report provides an update on the progress made against each of the above actions in turn, many of which are interlinked. Some of the key links between these various actions, and in particular the SRA process, annual audit, Best Value audit work and the FtPP Code are illustrated in Exhibit 1, below:

The links between key aspects of our audit work and the FtPP code
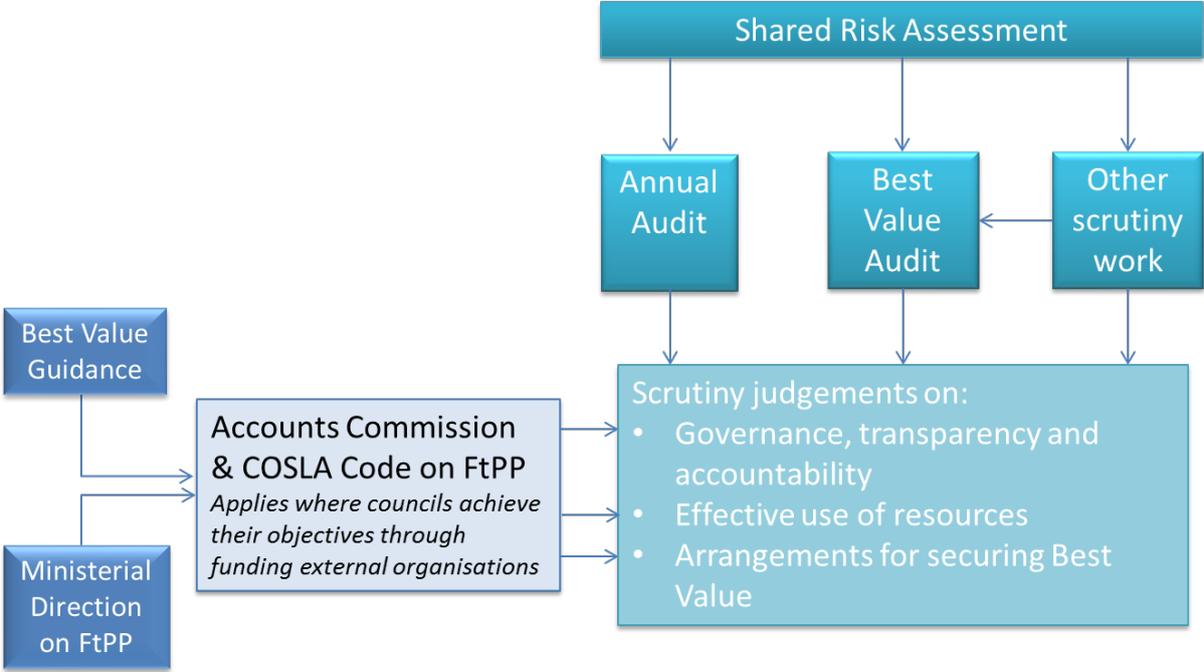
Source: Audit Scotland

Communications with councils and external auditors

6.   The Chair of the Commission wrote to councils in March 2015 highlighting the findings of last year's audit work on ALEOs, reinforcing the importance of councils demonstrating effective compliance with the FtPP Code. Following this, a guidance note was sent to local auditors reminding them of their responsibilities in relation to assessing councils' compliance with the FtPP Code. The guidance note was discussed with auditors at Audit Scotland's local government sector meeting in May 2015. These actions have reinforced both councils' and auditors' responsibilities in respect of a council's statutory requirement to comply with the FtPP Code.

7.   The guidance note to local auditors is attached for information at Appendix 1. It includes the letters issued by the Chair of the Accounts Commission to councils in relation to ALEOs and the FtPP Code. In summary, the guidance to auditors requested that they:

   • Consider broadly the arrangements which councils have established to fulfil their statutory obligations in respect of compliance with the FtPP Code, and to include in their annual audit report any significant recommendations made to the council where they have identified weaknesses in these arrangements; and

   • Provide an update as to actions taken by councils to address any findings or recommendations made by local auditors as part of their targeted follow-up work on ALEOs in 2013-14, as well as any other significant actions by councils to change their governance arrangements as they relate to ALEOs specifically, or

FtPP in general, as a result of the recent correspondence from the Accounts Commission, or other changes in circumstance at the council.

8. The annual local government planning guidance to auditors for 2015/16 will be updated to reflect the existence of this guidance note, to make sure there is appropriate ongoing focus on the FtPP Code requirements as part of the 2015/16 annual audit process.

Review of the Following the Public Pound Code

9. The process we have followed has included:

- A review of the FtPP Code, in particular the key principles, and consideration of their continued applicability and relevance.

- Obtaining legal advice to understand the implications of the statutory backing given to the FtPP Code through the 2005 Ministerial Direction, and how that may impact on available options to revise or update the FtPP Code, should that prove desirable.

- Consideration of the requirements and responsibilities which the FtPP Code places on councils, and how these are linked to the general principles laid down within Best Value guidance.

- Identification of a preferred option to take forward the Commission's ongoing interests in this area.

10. The FtPP Code, which is included in full within the auditor guidance at Appendix 1, is a principles-based code. It was, therefore, designed from the outset to provide broad guidance to local authorities that they could then apply in ways that reflected local needs and circumstances. The FtPP Code is designed to ensure that the core principles of openness, integrity and accountability apply to councils in all of their decisions on spending public money. These principles apply equally to funds or other resources which are transferred to arms length bodies such as companies, trusts, and/or voluntary bodies.

11. The FtPP Code defines its scope as:

'a *framework for councils' relationships with bodies through which they seek to carry out some of their functions other than on a straightforward contractual basis. The principles of the guidance apply to companies and other bodies such as trusts or grant aided voluntary organisations both where such bodies are subject to local authority control or influence and where they operate at arm's length.*'

The FtPP Code acknowledges that it is not, however, intended to '*apply to the many small revenue grants which councils make to community groups annually*'. The FtPP Code expects that each council will establish their own arrangements for determining the types of funding relationship that it believes meet the definition of the word 'substantial' as referred to in paragraph 2 of the FtPP Code.

12. The five key principles contained in the Code are set out below, along with some of its key narrative explanatory guidance.

Exhibit 1: Following the public pound principles and guidance

Principles of the FtPP Code
Have a clear purpose in funding an external body
• The prime purpose of involvement with external bodies should be the achievement of the council's objectives in the most effective, efficient and economic manner and not the avoidance of controls or legal restrictions which are designed to secure probity and regularity in the use of public funds. • An overall statement of purpose should be contained in any council decision to establish the funding relationship and should be expressed in any establishing documents or written agreements or understandings between the council and the body.
Set out a suitable financial regime
• The council should spell out clearly the extent of its financial commitment to the external body and the nature of the financial relationship. • The council's entitlements to any financial return should be stipulated and commitments to financial contributions by councils should not be open-ended in duration or amount.
Make clear their arrangements for monitoring the external body's financial and service performance, and for stipulating any required access to documentation
• The council should make clear any requirements which it has of external bodies to operate in a particular way. This might include proper employment practices, recruitment and selection processes, equal opportunities requirements, wages and conditions of service of employees and purchasing policies. The council should also stipulate how it intends to monitor the relationship between itself and the external body. • The council should insist on regular monitoring and reporting back by such bodies. • The council must ensure that its external auditors are given a right of access to such records, and, if appropriate, accounts and financial arrangements of the external body so that they may follow the trail of public money from the council through the body. • Where the council designates a member of staff in a supervisory officer or equivalent capacity it should ensure that such officers are clearly aware of their responsibilities and of the relevant monitoring procedure.
Consider very carefully the question of representation on the board of an external body
• The council must ensure that members and officers are properly advised of their responsibilities to the council and to the company. This should include questions of declarations of interest.
Establish limits to involvement in the external body
• Clear limits should be set on the extent to which the council will become involved financially with the body and its affairs. • Clear rules should be laid down at the outset for terminating the funding agreement and separation of the council's interest from that of the body.

13. Accountability for compliance with the principles of the FtPP Code is highlighted as being through the appointed external auditors who, if they have concerns regarding probity or regularity, should make these concerns known to the council and the Controller of Audit.

14. The initial focus of the FtPP Code was on self-regulation by councils and therefore the style of the Code is therefore largely of a descriptive nature, interspersing key principles with explanatory narrative of how those principles may be applied in practice. This flexible, principles-based approach has undoubtedly assisted in maintaining its relevance over the years.

15. The statutory backing applied to the Code was in the form of a Ministerial Direction under s51(1) and (2) of the Local Government (Scotland) Act 2003. This required every local authority to comply with the FtPP Code when entering into any arrangement or agreement with a body corporate or implementing such an arrangement. The Ministerial

Direction was appended to the auditor guidance note in Appendix 1 for information purposes.

16. We took legal advice from the Commission's lawyers on the implications that the joint nature of the current FtPP Code (i.e. the fact that it is a joint COSLA/Accounts Commission Code) and its statutory backing might have if it were decided that a fundamental review of the Code was needed.

17. The main conclusion reached by the lawyers was that [if] *"any amended version or any reissue of the Code is to come under the auspices of the [existing] Ministerial Direction, any amendment to the Code, or any re-issue of the Code would require to be undertaken by the Accounts Commission and CoSLA acting in concert."* As such, it is not within the Commission's sole authority to update and re-issue a revised FtPP Code.

18. Having considered the key underlying principles of the FtPP Code (Exhibit 1) our view is that while local government funding arrangements have changed and evolved since the Code was developed in 1996, the underlying principles which it sets out for effective governance of, and accountability for, funding arrangements which local authorities enter into using public money still remain entirely valid.

Application of the Code in practice

19. While the FtPP Code itself has not been updated since it was issued in 1996, the Accounts Commission undertook detailed follow-up work covering councils FtPP arrangements in 2004 and 2005. The key findings of this work were that:

- There was significant scope for councils to strengthen and improve their compliance with the FtPP Code. While there were differing levels of performance between councils, no council was assessed as being fully compliant with the FtPP Code requirements.

- Councils needed better information about their arms-length funding arrangements, the intended benefits and what is obtained for the money provided.

- Councils could not demonstrate a systematic and risk-based approach to dealing with their arms-length funding arrangements.

20. Further work was completed in respect of the funding of ALEOs in 2014, resulting in the briefing note to the Commission in January 2015 by the Director of Performance Audit and Best Value. This report highlighted:

- Many councils demonstrate a clear rationale for using ALEOs through options appraisal and detailed business cases, but with less evidence that long-standing and existing arrangements are subject to review.

- Evidence of more rigorous measures for governing ALEOs, but the standard of practice varied both between councils and within councils.

- Service level agreements and funding agreements should contain appropriate criteria for termination, monitoring and access to information for officers and auditors.

- Councils have monitoring arrangements in place for ALEOs with examples of good practice. However, councils need to ensure there is effective practice in place across all ALEOs.

21. At each of these stages, the nature of the findings identified scope for improvement in councils' arrangements to comply with the FtPP Code and indicated the need for greater consistency of practice. The various findings of these studies did not, however, indicate an underlying concern or issue with the continued relevance of the key principles of the FtPP Code, more that its application in practice needed to be more consistent.

The links between the principles of the FtPP Code and the duties of Best Value

22. We have considered the key principles of the Following the Public Pound in the context of the wider duty of Best Value that applies to councils under the Local Government in Scotland Act 2003. There is a clear overlap between the FtPP principles and the wider requirements on councils to achieve Best Value, not least because the application of the principle within the statutory Best Value guidance that *"in considering opportunities for improvement a fair and open approach will be taken in evaluating alternative forms of service delivery from whatever the sector"* will in some circumstances lead to external funding of services which will therefore require the FtPP Code to be followed.

23. Other areas of similarity and overlap between the current Best Value guidance and the FtPP Code include the Best Value requirement that:

    • decision-making processes are open and transparent, with council business managed in a manner which supports accountability and where the reasoning which underpins the decisions of the council is clearly documented and traceable;

    • the full financial consequences of decisions are assessed at an appropriate level, before major financial decisions are taken or commitments entered into;

    • members and senior managers ensure accountability and transparency through effective internal and external performance reporting;

    • services are expected to remain competitive and to provide consistently good service quality. In considering opportunities for improvement a fair and open approach will be taken in evaluating alternative forms of service delivery from whatever the sector; and

    • the authority has identified what information stakeholders need in order to form a view on the performance of the authority…[including]…information that allows the public to see that the authority is spending its money wisely and achieving value for money on behalf of its communities…and doing things that work.

24. Being able to demonstrate effective use of public money, either through direct service delivery, contracting out services, or external funding, is therefore a fundamental aspect of Best Value.

25. The Commission is currently thinking about its options for updating the existing Best Value guidance to reflect the Commission's new strategy, the new Best Value audit approach and its broader performance expectations of councils. Given the clear links between the FtPP requirements and the demonstration of Best Value there is a strong argument for ensuring that any updated guidance material on Best Value that is prepared by the Accounts Commission gives due prominence to the FtPP Code and highlights its links with the broader Best Value duty that applies to councils.

26. While the underlying principles of the FtPP code are considered to remain relevant, there is scope for preparing some updated guidance on how it should be interpreted in the context of any refreshed Best Value guidance (either statutory or non-statutory).

27. For example, the Code talks about 'representation, purposes, and monitoring arrangements'. Embedding the FtPP Code requirements within any updated Best Value guidance would allow for the requirements of the Code to be framed in terms that better reflect the Commission's current strategic interests and expectations, such as how the current Code links to the Commission's interests in promoting good governance, transparency, effective scrutiny and accountability for the use of public money

28. In obtaining legal advice over the status of the FtPP Code, we also asked about the implication of incorporating specific requirements on councils in relation to FtPP in any updated Best Value statutory guidance and what effect this would have on the status of the 2005 FtPP Ministerial direction. The legal advice concluded that *"If the statutory Best Value Guidance was updated in the manner that is being suggested, the Ministerial Direction would not automatically lapse nor would it automatically lapse if the Code was withdrawn in the absence of updated statutory Best Value Guidance. It seems very likely however that in either of these situations the Scottish Ministers would withdraw the Ministerial Direction in order to avoid any confusion and also as they may regard the Ministerial Direction as being largely redundant."*

Recent audit developments that relate to the FtPP Code and ALEOs

29. Much of the Commission's interest in this area stems from the fact that local authorities are increasingly involved in a widening range of different ways of providing services to the public. For example, through partnerships, trusts, special purpose vehicles and other types of ALEOs.

30. This changing pattern of service delivery is recognised in CIPFA's recent publication '*Accounting for collaboration*'. This document was prepared to help local authorities account appropriately under the new International Financial Reporting Standards for group accounting[1] which are included in the 2014-15 Code of Practice for Local Government Accounting. These new standards cover not only entities included in the group accounts but also wider collaborative arrangements. The objective of these new standards is to ensure that local authority financial statements provide the information necessary to enable the reader to understand the full nature of council's activities, the risks and rewards this exposes them to, and the governance and accountability arrangements established in respect of councils' use of resources.

31. In particular, IFRS 12 *Disclosure of Interests in Other Entities* requires councils to set out the nature of and risks associated with the reporting bodies' interests in other entities, and how these affect its financial position, performance and cash flows. This includes disclosures regarding interests in unconsolidated 'structured entities' which may have been established for the performance of specific activities.

32. These disclosure requirements apply to councils in the current 2014-15 financial reporting cycle, and so relevant disclosure information which will have been subject to external audit, should be available this year as a result of the adoption of the new standard.

Incorporating FtPP requirements in the Shared Risk Assessment (SRA) process

33. One of the actions that the Commission asked us to consider was to promote a stronger consideration of ALEOs and compliance with the FtPP Code in scrutiny work, particularly through Shared Risk Assessment (SRA) work.

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[1] IFRS 10 *Consolidated financial statements,* IFRS 11 *Joint Arrangements, and* IFRS 12 *Disclosures of Interests in Other Entities*

34. Embedding the FtPP principles more centrally in the new Best Value audit approach would be consistent with this objective. The risk assessment template that is adopted for the SRA has always reflected the scope of the Best Value audit and can be amended easily to incorporate these proposed changes.

35. In addition, the combination of fact that the new disclosure requirements under IFRS 12 apply to the 2014-15 financial reporting cycle and the fact that the we have already asked appointed auditors to document and report on FtPP Code compliance as part of this year's annual audit process, means that there will be an increased audit evidence base available to inform the 2016/17 SRA cycle that will begin towards the end of this year.

Definition of ALEOs

36. Although the phrase ALEO is now in common usage there is no single definition, legal or otherwise, of what constitutes an ALEO beyond the components of the acronym. The Commission therefore asked us to consider the definition of ALEOs as part of the approach to assist councils in applying good governance to the funding arrangements for ALEOs, and other similar bodies.

37. In its 2011 report on ALEOs, and consistently since, the Commission has defined ALEOs in a manner reflecting the fact that councils have established a number of different types of bodies at arm's length from the council but still subject to their control or influence. The Commission's definition is:

> "*companies, trusts and other bodies that are separate from the local authority but are subject to local authority control or influence. Control or influence can be through the council having representation on the board of the organisation, and/or through the council being a main funder or shareholder of the organisation.*"

38. In describing the different situations which arise in local government, the term ALEOs has though been used in a number of different ways, including:

- '*Councils can also create separate organisations to deliver services. The term, arm's-length external organisations, or ALEOs, is often used to describe such organisations*'[1];

- '*Services delivered by ALEOs – specially created bodies that the relevant council(s) has influence over*'[2]; and

- '*ALEOs mainly undertake activities which were previously undertaken by local authorities*'[3]

39. Within the revised accounting standards for group accounting outlined earlier, the Accounting Code of Practice provides specific definitions for control and influence through the application of the relevant accounting standards for local authorities' accounting for subsidiaries, associates and joint arrangements. If the Commission wishes to continue to retain control and influence as one of the requirements for considering a body to be considered as an ALEO then these standards can be used for that purpose.

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[1] How councils work: an improvement series for councillors and officers - Arm's-length external organisations (ALEOs): are you getting it right?; Accounts Commission, June 2011
[2] ALEOS Follow-up: Briefing to the Accounts Commission, by the Director of Performance Audit and Best Value, January 2015
[3] Arms Length External Organisations, Office of the Scottish Charity Regulator, January 2015

40. Alternatively, the Commission may wish to consider adopting an updated definition of an ALEO, distinct from the concept of control or influence but which sets out a set of characteristics which can be applied flexibly as part of its broader development of the new integrated Best Value audit approach.

Other developments

41. In parallel with this work, we have had ongoing engagement with OSCR following the publication of their report earlier in 2015[1]. Their findings are not anticipated to have any significant effect on the Commission's ongoing work. We have also engaged with the Improvement Service in respect of their ongoing work to understand the governance and accountability arrangements which local authorities have put in place around their ALEOs. This is expected to be published later in 2015 but again is not anticipated to have any effect on our ongoing work.

42. The Local Government and Regeneration Committee announced in June its work programme, including a commitment to undertake, in principle, a short inquiry on the structure and role of ALEOs in Scotland. The Committee have been advised of the Commission's ongoing interest in the matter, and further dialogue in this regard with the Committee is anticipated.

Next steps

43. The preferred option of linking the FtPP principles and requirements to Best Value auditing going forward has been discussed with the Best Value audit review team to ensure that these two important strategic developments are effectively aligned on behalf of the Commission. The proposals set out in this report have also been discussed with colleagues in Audit Strategy to ensure that they are reflected in the ongoing work that is currently taking place to revise the Code of Audit Practice.

44. Initial consideration has now been given to the development of guidance for the forthcoming Shared Risk Assessment work, and this will be taken forward further as part of the refresh of the 2016/17 SRA process to ensure that appropriate attention is given to any scrutiny risks associated with the local authority funding and governance of relevant activities of ALEOs or other externally funded organisations.

45. Ongoing engagement has been maintained with OSCR and the Improvement Service in respect of recent work which they have undertaken to consider the governance and accountability arrangements of ALEOs.

46. The Commission may wish to consider how its response to the recommendations in this report are reflected in the further engagement that will be undertaken with COSLA and the Scottish Government and other stakeholders such as SOLAR as part of the wider consultation on Best Value. This will all be informed by the Commission's engagement strategy that is being considered at this meeting.

Conclusion and recommendations

47. The Commission is asked to:

    i)   Note the actions taken to highlight the FtPP Code principles to Councils, through the chair of the Accounts Commission's letters to Chief Executives and Council Leaders.

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[1] Office of the Scottish Charity Regulator, op cit.

ii)   Note the actions taken to reinforce to auditors their responsibilities in relation to assessing compliance with the FtPP Code through the refreshed audit guidance which was issued in May.

iii)   Note the findings of the review of the FtPP Code set out in this report and approve the recommendations that:

a)   the FtPP Code remains valid and therefore the Commission should not undertake a formal refresh of its content

b)   compliance with the FtPP Code should be embedded into the Commission's performance expectations for councils under any revised Best Value guidance; and

c)   proportionate and risk-based auditing of compliance with the FtPP Code will be undertaken as part of the new integrated Best Value audit approach.

iv)   Consider whether it wishes to retain the requirement of a body being under the 'control or influence' of a local authority in its definition of ALEOs.

v)   Note the proposed approach to promoting a stronger consideration of ALEOs and compliance with the FtPP Code in scrutiny work through revisions to the Shared Risk Assessment (SRA) process.

vi)   Consider its approach to progressing further engagement with stakeholders on its future approach to FtPP as part of its wider engagement strategy.

Paul Reilly
Secretary to the Commission
4 August 2015

Fraser McKinlay
Director of Performance Audit and Best Value
4 August 2015

LOCAL GOVERNMENT SECTOR MEETING

11 MAY 2015

REPORT BY THE CONTROLLER OF AUDIT

FOLLOWING THE PUBLIC POUND – GUIDANCE FOR AUDITORS

Purpose

1. This report provides guidance to local auditors in terms of developing expectations from the Accounts Commission in respect of councils' arrangements for funding external organisations and Following the Public Pound, and how local auditors may provide assistance in this area as part of their routine 2014-15 audit. It is also intended as a reminder to assist auditors in discharging their responsibilities in this area, taking account of the statutory obligations on councils to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound.

2. The report has been prepared by the Controller of Audit to support the Controller in his reporting to the Accounts Commission on the annual audit cycle. It is intended that in future any further requirements on local auditors in this area will be captured in revisions to the Code of Audit Practice.

Background

3. In 2013-14 local auditors carried out targeted follow-up work in respect of Arms-Length External Organisations (ALEOs) in each of Scotland's 32 councils. This centred on the areas covered by the good practice checklists contained within the Accounts Commission's 2011 *How Councils Work* report 'Arm's-Length External Organisations: Are you getting it right?'[1] and looked at the scale of their use, the rationale for ALEOs, and their governance.

4. In January 2015, the Accounts Commission considered a briefing report from the Director of Performance Audit and Best Value setting out the findings of the further work on ALEOs that it asked appointed auditors to undertake. Having considered that report , among other actions, the Accounts Commission agreed to:

    a. Send a letter to councils encouraging them to apply good practice more consistently across ALEOs highlighting the importance of strong governance for ALEOs particularly around minimising potential conflicts of interest, ensuring regular and proportionate monitoring, and including clauses for review and termination in funding agreements – a copy of the letters sent by the chair of the Accounts Commission to council Leaders and Chief Executives on 15 March 2015 are attached (Appendix 1A[2])

    b. Send a guidance note to external auditors of councils to assist in their audit of councils' governance and funding arrangements with ALEOs, drawing particular attention to the practical guidance in the Following the Public Pound code – see this report; and

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[1] **How councils work: An improvement series for councillors and officers - Arm's-length external organisations: Are you getting it right?, 16 June 2011 for the Accounts Commission** **http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf**
[2] **Appendices have been renumbered for internal consistency within this report**

c. Undertake, by Autumn 2015, a review of the Following the Public Pound code in conjunction with an update of the definition of ALEOs to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies – that review is ongoing and the findings will be reported to the Accounts Commission later in 2015. Any changes arising out of this review are not expected to take effect for councils until 2016-17 at the earliest.

The Code of Guidance on Funding External Bodies and Following the Public Pound

5. The principles of funding external bodies were set out in the Accounts Commission and the Convention of Scottish Local Authorities (COSLA) 1996 'Code of Guidance on Funding External Bodies and Following the Public Pound' (FtPP) – Appendix 1B. The Code was developed at the time in response to growing concerns about the increasing use by Councils of companies, trusts and other arms-length bodies. The initial focus of the Code was on self-regulation by councils.

6. In 2005, the Code was given statutory backing in the form of a Ministerial Direction under s51(1) and (2) of the Local Government (Scotland) Act 2003 which required every local authority to comply with the FtPP Code when entering into any arrangement or agreement with a body corporate or implementing such an arrangement – Appendix 1C. The Direction also placed a requirement on proper officers of the council to provide auditors with information to ensure compliance by local authorities with their duty to secure best value.

7. The principles of the FtPP Code do not apply to conventional contracts which involve councils purchasing goods, materials or services eg, contracts with a private care home to provide residential care places.

8. The principles do apply where councils provide either fixed payment funding to third party organisations and where the external third party has the power to commit those council funds to the services which they provide. In accordance with the Accounts Commission Following the Public Pound report of 2005[1], in these circumstances, it is important to be able to 'follow the public pound across organisational boundaries' to ensure that public funds are used properly and that Best Value is secured.

9. In practice, councils will have to consider how to apply the principles in the different situations where funding is provided to entities over which they exercise a level of control, such as subsidiaries, associates or jointly controlled organisations, compared with funding provided to third parties where there are no formal control arrangements.

Auditor responsibilities

10. In accordance with ISA (UK & Ireland) 250 *Consideration of laws and regulations in an audit of financial statements*, as part of understanding the entity and its environment, auditors are required to '*obtain a general understanding of the legal and regulatory framework applicable to the entity and the industry or sector in which the entity operates, and how the entity is complying with that framework*.'

11. While compliance with the FtPP Code may not have a direct effect on the determination of material amounts within the financial statements, the Code of Audit Practice requires local government auditors to consider whether there are any matters relating to failure to

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[1] **Following the Public Pound. A follow-up report, Accounts Commission, December 2005**
http://www.audit-scotland.gov.uk/docs/local/2005/nr_051215_public_pound.pdf

comply with laws and regulations which should be brought to the Controller of Audit's attention.

12. The targeted follow-up work carried out in 2013-14 in respect of ALEOs was based heavily on organisations which formed part of the group accounts of a council because of the control relationship in place. Councils enter into many arrangements to provide funding to third parties which do not meet any of the definitions of control required for consideration for group accounts purposes. However, the statutory requirement to comply with the FtPP Code, in conjunction with their wider statutory duty to ensure Best Value, means that councils should have appropriate arrangements to approve, monitor and hold third parties accountability for public funding provided to them.

13. With the exception of 2013-14 where local auditors provided specific reporting on the targeted ALEOs follow-up, recent annual audit reports for councils have generally been silent on councils' arrangements for, and compliance with, their statutory obligations for Following the Public Pound. Given the statutory requirement on councils in this area, we would intend to move to a position where local auditors include specific commentary that they have considered the appropriateness of their council's arrangements to meet their obligation to comply with the FtPP Code, as part of their wider reporting on Best Value, governance and accountability.

Following the Public Pound

14. In respect of their wider control and accountability obligations in terms of funding external bodies and following the public pound, some local authorities have adopted their own local code of guidance for complying with the FtPP Code, while others have incorporated key elements of the FtPP Code within their financial regulations. Others simply refer to the original FtPP Code when considering entering into arrangements whereby funding will be provided to third parties.

15. The FtPP Code acknowledges that it is not intended to '*apply to the many small revenue grants which councils make to community groups annually*', however, the FtPP Code expects that councils will have set out through their own arrangements, the types of funding relationship that it believes meet the definition of the word 'substantial' as referred to in paragraph 2 of the FtPP Code.

16. Furthermore, it would be expected that the local authority has established clear guidelines to enable it to ensure compliance with the principles laid down by the FtPP Code.

17. The nature of compliance with these principles is such that we would expect that the council's internal audit function would review the governance and monitoring arrangements established by the council in respect of compliance with the FtPP Code on at least a semi-regular basis.

18. Where councils have not set out clearly the scope of their arrangements for following the public pound, or have not included a recent internal audit review of their local compliance arrangements, we would anticipate that local auditors would look to make a recommendation to this effect in their reporting to those charged with governance.

ALEOs: follow-up work

19. Audit work on ALEOs forms a significant subset of assessing compliance with the FtPP Code and so we would expect auditors to report on whether councils have taken action to respond to:

   a. Any recommendations made by local auditors as a result of the targeted follow-up work in 2013-14;

   b. Any actions taken following receipt of the correspondence from the Accounts Commission to the Leader of the Council and the Chief Executive in March 2015; and

   c. Any other significant changes made by councils to their arrangements for governance and monitoring of their identified ALEOs.

Summary

20. In summary, in undertaking annual audit work, local auditors should:

   a. Consider broadly the arrangements which councils have established to fulfil their statutory obligations in respect of compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound, to ensure that local auditors are able to bring any significant matters of non-compliance which may be identified to the attention of the Controller of Audit;

   b. Include in their annual audit report any significant recommendations made to the council where they have identified weaknesses in councils high level arrangements to comply with the Code of Guidance on Funding External Bodies and Following the Public Pound; and

   c. Provide an update as to actions taken by councils to address any findings or recommendations made by local auditors as part of their targeted follow-up work on ALEOs in 2013-14, as well as any other significant actions by councils to change their governance arrangements as they relate to ALEOs as a result of recent correspondence by the Accounts Commission, or other changes in circumstance at the council.

Fraser McKinlay
Controller of Audit
19 May 2015

Appendix 1A: Accounts Commission letters to Council Chief Executives and Council Leaders

To: All council chief executives   15 March 2015
Address
Address
Address
Address
Address

Dear Name

I am taking the opportunity to write to inform you of various activities being undertaken by the Accounts Commission in pursuance of our interest in ensuring that councils are able to hold to account arm's-length external organisations (ALEOs).

In June 2011, the Accounts Commission published the How councils work[1] (HCW) report *Arm's-length external organisations (ALEOs): are you getting it right?.* This set out good practice principles and highlighted the risks and opportunities of delivering services through ALEOs. The report provided checklists and a self-assessment tool to assist councillors and officers effectively manage and scrutinise ALEO performance.

The HCW report built on the principles set out in the Accounts Commission and the Convention of Scottish Local Authorities (COSLA) 1996 'Code of Guidance on Funding External Bodies and Following the Public Pound'. The code – which received statutory backing in 2005 - was developed in response to growing concerns about the implications of ALEOs on control and accountability. The focus of the code is on self-regulation. It is based on the premise that to ensure public money is used properly, it must be possible to 'follow the public pound' across organisational boundaries.

In January 2015, the Accounts Commission considered the findings of further work on ALEOs that it asked appointed auditors to undertake, looking at the scale of their use, the rationale for ALEOs, and their governance.

From this follow-up work, it is clear that ALEOs continue to be a significant part of council service delivery, and are increasingly used, including essential services such as social care. It is fundamentally important that councils have effective governance in place to manage their involvement with these organisations and to monitor the associated performance, costs and risks.

The Commission noted that, since 2011, councils have put in place more rigorous measures for governing ALEOs. But, we also found that the standard of practice varies between councils, and

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1 How councils work: an improvement series for councillors and officers - Arm's-length external organisations (ALEOs): are you getting it right?,16 June 2011 for the Accounts Commission http://www.audit-scotland.gov.uk/docs/local/2011/nr_110616_aleos.pdf

indeed, within individual councils. For example:

- Some councils lack clear guiding principles for councillors or officers with a role in ALEOs. Councils need to ensure they minimise the potential for conflicts of interest and set clear criteria for appointing board members. This requires ongoing training and development.

- Many councils demonstrate a clear rationale for creating ALEOs through options appraisal and detailed business appraisals. But, there is less evidence of councils reviewing existing ALEOs to ensure they continue to meet the council's objectives.

- Councils have monitoring arrangements in place for ALEOs and there are examples of good practice. Arrangements include codes of guidance for the governance of ALEOs, scrutiny committees of elected members, and ongoing monitoring and liaison with ALEOs by council officers. The standard is, however, variable and councils need to ensure that effective and proportionate arrangements are in place for all ALEOs. This includes regular monitoring of performance, financial information and risks.

- Most councils have service and funding agreements in place for ALEOs. These do not always include measures to ensure councils can respond quickly where an ALEO is no longer meeting its requirements. This includes setting clear termination agreements, performance measures and targets, and triggers for review. Councils should also put in place sufficient access rights for auditors and council officers.

We urge all councils to ensure that they have effective arrangements in place for all ALEOs and make good use of the guidance in the HCW report *Arm's-length external organisations (ALEOs): are you getting it right?* The Commission will continue to examine councils' use of ALEOs as part of their requirement to demonstrate Best Value. In conjunction with this letter to councils, we are also preparing a guidance note to assist external auditors of councils in their audit of councils' governance and funding arrangements with ALEOs. A further HCW report on roles and relationships is planned for later this year and this is likely to include further guidance on member and officer roles in relation to arms-length organisations.

We will also this year undertake a review of the Code of Guidance on Funding External Bodies and Following the Public Pound to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. I will write to you again when the review is complete.

Meantime, I hope this information is helpful to you to outline the Commission's continued interest in councils' use of ALEOs and their governance.

Douglas Sinclair

Chair, Accounts Commission

To: All council leaders
Address
Address
Address
Address
Address

15 March 2015

Dear Name

I have today written to your chief executive setting out various activities being undertaken by the Accounts Commission in pursuance of our interest in ensuring that councils are able to hold to account arm's-length external organisations (ALEOs).

It is clear to the Commission that ALEOs continue to be a significant part of council service delivery, and are increasingly used, including essential services such as social care. It is fundamentally important that councils have effective governance in place to manage their involvement with these organisations and to monitor the associated performance, costs and risks. The Commission will continue to examine councils' use of ALEOs as part of their requirement to demonstrate Best Value.

We urge all councils to make good use of the guidance in our *How Councils Work* report from 2011, 'Arm's-length external organisations (ALEOs): are you getting it right?'.

We will also this year undertake a review of the 1996 Code of Guidance on Funding External Bodies and Following the Public Pound to assist councils to apply the principles of good governance to the funding arrangements for ALEOs and similar bodies. I will write to you again when the review is complete.

Meantime, I hope this information is helpful to you to outline the Commission's continued interest in councils' use of ALEOs and their governance.

Douglas Sinclair

Chair, Accounts Commission

Appendix 1B: Code of Guidance on Funding External Bodies and Following the Public Pound

1 Objective

It is important to ensure clear public accountability for public funds at the same time as supporting initiatives for securing quality local authority services in the most effective, efficient and economic manner. The principles of openness, integrity and accountability apply to councils in their decisions on spending public money which are subject to public record and external audit. These principles should also apply to funds or other resources which are transferred by councils to arms length bodies such as companies, trusts and voluntary bodies. This guidance is intended to ensure proper accountability for such funds and that the principles of regularity and probity are not circumvented. It has the support of the Convention of Scottish Local Authorities.

2 Scope

The guidance which follows sets out a framework for councils' relationships with bodies through which they seek to carry out some of their functions other than on a straightforward contractual basis. The principles of the guidance apply to companies and other bodies such as trusts or grant aided voluntary organisations both where such bodies are subject to local authority control or influence and where they operate at arm's length. Councils will wish to have their own rules setting out procedures appropriate to their local circumstances and internal processes, and those rules should be based on this guidance. The guidance should apply to any new substantial funding relationships entered into by councils and to existing substantial funding relationships at the earliest possible review date. What is 'substantial' will vary according to circumstances. When interpreting 'substantial' councils should have regard to the significance of the funding in relation to their own budgets and its significance in relation to the budget of the external body. We do not, for example, intend this guidance to apply to the many small revenue grants which councils make to community groups annually. 'Funding' is intended to include all resources which councils may transfer.

3 Purposes

When agreeing to transfer funds to an external body a council must be clear about its reasons for doing so. Proper considerations should always apply and the prime purpose of involvement with external bodies should be the achievement of the council's objectives in the most effective, efficient and economic manner and not the avoidance of controls or legal restrictions which are designed to secure probity and regularity in the use of public funds. The reasons should be related to a strategy or policy of the council and that link should be demonstrable. An overall statement of purpose should be contained in any council decision to establish the funding relationship and should be expressed in any establishing documents or written agreements or understandings between the council and the body. The council should set out its expectation of the use of the funding. This should contain a broad and general statement of aims or goals and should also contain clear targets with timescales and methods of measurement whenever possible, as well as any conditions and reporting requirements.

4 Financial regime

The council should spell out clearly the extent of its financial commitment to the external body and the nature of the financial relationship eg shareholding, grant, loan, contractual payments. Criteria for making and receiving payments should be specified. The transfer of any assets should be clearly regulated in a written agreement and the end destination of any such assets should be specified. The council's entitlements to any financial return should be stipulated and commitments to financial contributions by councils should not be open-ended in duration or amount.

The written agreement should refer to the minimum standard of management arrangements which need to be in place and any specific or additional responsibility and accountability which is being vested in a board or management committee. The minimum accounting and audit requirements should also be included.

5 Monitoring arrangements

The council should make clear any requirements which it has of external bodies to operate in a particular way. This might include proper employment practices, recruitment and selection processes, equal opportunities requirements, wages and conditions of service of employees and purchasing policies. The council should also stipulate how it intends to monitor the relationship between itself and the external body. For example, the council may wish to stipulate that it will have appropriate access to records held by the body. The council may require the body to take appropriate advice on its actions and to make frequent monitoring reports to the council on such matters as:

- income, expenditure, profitability, liquidity and other financial matters;

- achievement of targets; and

- future plans.

Regardless of representation on committees or boards, the council should insist on regular monitoring and reporting back by such bodies. Where the council designates a member of staff in a supervisory officer or equivalent capacity it should ensure that such officers are clearly aware of their responsibilities and of the relevant monitoring procedure. It is not the intention of this guidance to try to put the external auditors of the council in the place of the auditors of external bodies. However, the council must ensure that its external auditors are given a right of access to such records, and, if appropriate, accounts and financial arrangements of the external body so that they may follow the trail of public money from the council through the body. They should be able to seek, through the council, any explanations which they consider necessary from representatives of the body. The external auditors of the council should also have access, through the council, to the external auditors of the body.

6 Representation

The council should consider very carefully the question of representation on the boards of companies which are subject to its control and, to an even greater extent, on bodies which are not subject to its control. For example, members or officers who become directors will assume personal responsibilities under the Companies Act. It is possible that conflicts of interest can arise for such members and officers as between the company and the council. The council must ensure that members and officers are properly advised of their responsibilities to the council and to the company. This should include questions of declarations of interest.

7 Limitations

In entering into a substantial funding commitment with an external body the council should lay down a timetable for the achievement of the objectives. If the purpose is a continuing one then provision should be made for regular review of achievements and of the relationship between the body and the council. Arrangements should include regular reporting to an appropriate council committee, if necessary in private if issues of commercial confidentiality arise. Clear limits should be set on the extent to which the council will become involved financially with the body and its affairs. Clear rules should be laid down at the outset for terminating the funding agreement and separation of the council's interest from that of the body. Councils should consider whether particular events should trigger a review eg, change of leading personnel in the external body.

8 Accountability

The external auditors appointed by the Accounts Commission will be required to review as part of the annual audit the arrangements which councils have made for such substantial funding agreements and will measure councils' compliance with this guidance. In cases where they have concerns over issues of probity and regularity they will make these known to the council and the Controller of Audit.

DIRECTION TO LOCAL AUTHORITIES TO 'FOLLOW THE PUBLIC POUND'

DIRECTION UNDER SECTION 51 OF THE LOCAL GOVERNMENT IN SCOTLAND ACT 2003

The Scottish Ministers, in exercise of the powers conferred by sections 51(1) and (2) of the Local Government in Scotland Act 2003([1]), and all other powers enabling them in that behalf, hereby give every local authority([2]) in Scotland the following direction.

Compliance with Code

1. Every local authority shall-

    (a) in entering any arrangement or agreement with a body corporate; and

    (b) in implementing any such arrangement or agreement,

comply with the Code of Guidance on Funding External Bodies and Following the Public Pound([3]) as amended or re-issued from time to time which is to have effect for the purposes of regulating local authorities in entering and implementing such arrangements or agreements.

Requirement on proper officers to provide auditors with information to ensure compliance by local authorities with their duty to secure best value

2. The proper officer([4]) of every local authority who has responsibility for the proper administration of financial affairs is hereby required to provide information held by the local authority in relation to arrangements or agreements with a body corporate to the Accounts Commission for Scotland([5]) or any person authorised by it to enable the Commission or that person to discharge its functions or the functions of that person under Part VII of the Local Government (Scotland) Act 1973 insofar as those functions relate to the duty of local authorities to secure best value under section 1 of the Local Government in Scotland Act 2003.

Tom McCabe
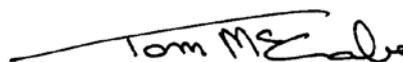
Being an officer of the Scottish Ministers

29/06/2005

([1]) 2003 asp 1.
([2]) For the purposes of section 51 of the 2003 Act, a local authority is defined by section 61(c)(iii) of that Act as a council constituted under section 2 of the Local Government etc. (Scotland) Act 1994 (c.39), a joint fire board and a joint police board. Joint fire board and joint police board are defined by section 61(a) and (b) of the 2003 Act.
([3]) Published in 1996 by the Accounts Commission and Convention of Scottish Local Authorities.
([4]) Proper officer is defined by sections 95 and 235(3) of the Local Government (Scotland) Act 1973 (c.65).
([5]) The Accounts Commission for Scotland was established by section 97 of the 1973 Act.

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MEETING: 13 AUGUST 2015

REPORT BY: SECRETARY TO THE COMMISSION

MEETING ARRANGEMENTS 2016

Purpose

1.   The purpose of this report is to propose meeting arrangements for the Commission for 2016.

Background

2.   The Commission has in its Strategy a commitment to continuously improve how it does its business and to consider how it can manage better its business.

3.   This paper asks the Commission to approve a schedule of meetings for 2016. It also reviews aspects of how the Commission conducts its business, as well as the committee day arrangements.

Summary proposal

4.   The attached Appendix proposes a schedule of meetings for 2016. It follows the current model, thus:

- 11 monthly Commission meetings, with a break in July.

- Meetings generally on the second Thursday of every month.

- Meetings start at 10.15am, preceded by an informal private business session at 9.30am.

- Quarterly committee meetings, with two optional dates (see paragraph 13 below) in late Spring and Autumn.

- Committees meet on the same day, with the Financial Audit and Assurance Committee meeting at 10.00am and the Performance Audit Committee starting at 2.00pm.

- A guest speaker session during committee meeting days.

Workload

5.   There are a number of issues which will affect the workload of the Commission over the next year, such as the next iteration of Best Value; our audit responsibilities in relation to health and social care; and any possible responsibilities in relation to community planning and legislation such as the Community Empowerment Act. None of these, however, are expected to increase our workload to the extent that would require revising our current meeting schedule and arrangements.

6.   Nevertheless, the Commission is asked to consider if there is anything in its current arrangements that it would like to revise.

Accessibility and transparency

7. Last year, when the Commission discussed its meeting arrangements, it noted the desirability of continuing to look for ways to make its meetings more accessible. Ongoing developments will help in this regard, such as an improved meeting space in the new office accommodation in Edinburgh and the new website. I am also continuing to explore with Audit Scotland options for initiatives such as live streaming of meetings.

8. In 2011, the Commission agreed to introduce the practice of meeting in public. This has led to most Commission business being dealt with in public and thus allowing the Commission to demonstrate transparency in how it does its business. In practice, the business that is retained for private consideration is mainly to ensure that the Commission's external messages are managed effectively through its formal publications and thus avoiding any leaks or misinterpretation of Commission discussion, and ensuring clarity in Commission messages. Private business therefore includes:

    - draft performance audit reports

    - reaching decisions about actions in relation to Controller of Audit report

    - reaching policy positions

    - discussing confidential issues such as budgets.

9. This practice is in line with, for example, that of many other public bodies and of committees in the Scottish Parliament. Commission members have discussed this practice at recent strategy seminars and have agreed that it works effectively.

10. In addition, this year we have introduced an informal business session before Commission meetings at 9.30am. These sessions are an opportunity for members to discuss informally any matter relevant to their responsibilities but without the need ror formal consideration by the Commission. Such a practice is in line with Parliamentary committees.

11. This year, I have also introduced in agendas and minutes of the Commission more clarity as to why any item of business is to be considered in private. It is also made clear at the start of each Commission meeting if there is any business which requires to be discussed which is not otherwise on the agenda. In practice, such business is rare.

12. Meeting papers for Commission meetings are available publicly, via our website, at least four days before a Commission meeting. An archive of meeting papers is also publicly available through the website.

13. The Commission will continue to ensure that transparency is applied to its business and that we maximise public accessibility to our meetings.

Committee days

14. The Commission's committees meet quarterly. This year, in addition, there was one optional date identified, in June. This date was used for both committees. I have consulted with Audit Scotland colleagues who have indicated that they are comfortable with this arrangement. This year, therefore, I propose the same arrangement, with the addition of one extra optional date in the Autumn, to allow for any business that has occurred during the summer.

15. This year the Commission has also continued the practice of its committees meeting on the same day. It has also continued the practice of having a guest speaker. It is proposed that this practice continue.

16. This year's speakers have been:

- February 2014: Jim Martin, Scottish Public Sector Ombudsman

- May 2014: Bill Thomson, Commissioner for Ethical Standards in Public Life in Scotland

- September 2014: Ian Gordon, Convener of the Standards Commission for Scotland

- November 2014: Rosemary Agnew, Scottish Information Commissioner.

- February 2015: Colin Mair, Chief Executive, Improvement Service

- April 2015: Annette Bruton, Chief Executive of the Care Inspectorate.

17. The Commission's views are sought on a suitable schedule of speakers or activities for the lunchtime session on committee meeting days.

Annual strategy seminar

18. In considering the proposed schedule, the Commission should also consider the scheduling of its annual strategy seminar. It is proposed that this take place some time during late March 2016.

Conclusion

19. The Commission is invited:

- To consider the proposed schedule for meetings of the Commission and its committees in 2016;

- To note the updated position with accessibility and transparency in relation to our meeting and business arrangements;

- If minded to retain a speaker session during committee days, consider a schedule of speakers or activities for 2016; and

- To consider the proposal that the annual strategy seminar take place in late March 2016.

Paul Reilly
Secretary to the Accounts Commission
4 August 2016

APPENDIX

ACCOUNTS COMMISSION

MEETING SCHEDULE 2016

14 January	Accounts Commission
11 February	Accounts Commission
25 February	Committees
10 March	Accounts Commission
14 April	Accounts Commission
28 April	Committees
12 May	Accounts Commission
9 June	Accounts Commission
16 June	Committees (optional date –only if business requires)
11 August	Accounts Commission
25 August	Committees (optional date –only if business requires)
8 September	Accounts Commission
22 September	Committees
6 October	Accounts Commission
10 November	Accounts Commission
24 November	Committees
8 December	Accounts Commission

* Please note that 14 April is the third Thursday of the month, rather than the customary second Thursday.

Proposed 'committee day' arrangements:

10.00am – 12.00pm: Financial Audit and Assurance Committee

12.15pm – 12.45pm: Lunch

12.45pm – 1.45pm: Visiting speaker

2.00pm – 4.00pm: Performance Audit Committee

MEETING: 13 AUGUST 2015

COVER NOTE BY: SECRETARY TO THE COMMISSION

AUDIT OF BEST VALUE: FALKIRK COUNCIL

Purpose

1. The purpose of this paper is to introduce the Controller of Audit's report of the Best Value audit at Falkirk Council. The Commission is invited to consider the report and decide how it wishes to proceed.

Background

2. The Commission last considered a report on Best Value at Falkirk Council in 2008. The annual Local Scrutiny Plan for the council, issued in June 2014, which followed a shared risk assessment carried out by the Local Area Network, identified a need for Best Value audit work to cover the following areas:

   •   Governance and accountability, as not all elected members were participating in new decision making structures that the council had introduced in May 2013

   •   Improving and transforming public services, focusing on how the council's performance management arrangements support its planning and delivery of services with reducing budgets.

The Report

3. The attached report to the Commission is made by the Controller of Audit under section 102(1) of the Local Government (Scotland) Act 1973 (as amended by subsequent legislation including the Local Government in Scotland Act 2003).

4. The legislation enables the Controller of Audit to make reports to the Commission with respect to:

   a) the accounts of local authorities audited under the Act;
   b) any matters arising from the accounts of any of those authorities or from the auditing of those accounts being matters that the Controller considers should be considered by the local authority or brought to the attention of the public.
   c) the performance by a local authority of their statutory duties in relation to best value and community planning.

5. A copy of the report is being sent to the Council, which is obliged to supply a copy to each elected member of the Council and to make additional copies available for public inspection. Once the Controller of Audit's report is sent to the Council it is effectively in the public domain.

Procedure

6. The legislation provides that, on receipt of a Controller of Audit report, the Commission may do, in any order, all or any of the following, or none of them:

    a) direct the Controller of Audit to carry out further investigations;
    b) hold a hearing;
    c) state its findings.

7. Findings may include recommendations and the persons to whom those recommendations may be made include Scottish Ministers, who have powers to make an enforcement direction requiring an authority to take such action as is specified in the direction.

8. Members of the audit team will be present at the Commission's meeting and will be available to answer questions on the evidence presented in the report.

Conclusion

9. The Commission is invited to:

    a) consider the report by the Controller of Audit on the audit of Best Value of Falkirk Council; and

    b) decide how it wishes to proceed.

Paul Reilly
Secretary to the Commission
4 August 2015

Falkirk Council

Best Value Audit 2014/15

ACCOUNTS COMMISSION

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about/ac

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

Contents

Commission's Findings

Insert subheading

1. Text starts here

Introduction

Best Value

2. The Local Government in Scotland Act 2003 created a statutory duty of Best Value for all councils, and the Accounts Commission for Scotland is responsible for reporting to the public on the extent to which individual local authorities meet this duty. Staff from Audit Scotland carry out the audit work on Best Value and the Controller of Audit provides audit reports to the Commission.

3. We base the scope of each audit of Best Value on a shared risk assessment that we carry out annually, working with colleagues from the other scrutiny bodies that cover local government. For each council, representatives from the scrutiny bodies collaborate in a Local Area Network (LAN). The LAN produces an annual scrutiny plan that sets out expected activity by each scrutiny body over the forthcoming year. This means that audits of Best Value focus on the particular risks and key issues that individual councils face, and are coordinated with other inspections and scrutiny activity.

4. The Accounts Commission published an audit report about Best Value in Falkirk Council in May 2008, and the LAN has considered related issues since 2010. In its 2008 report, the Commission found that the council did well in relation to vision and strategic direction, community engagement, customer focus, partnership working, performance management and delivering a number of major initiatives and projects that contributed to economic development and regeneration. The Commission also highlighted a number of areas for improvement. These included ensuring that a number of these positive features are used to drive improvement across the council. The Commission also found that while the council's approach to financial management and planning was sound, it needed to do more to align its financial planning to the council's vision and to develop longer-term planning.[1]

Scope of our Audit

5. In the annual scrutiny plan issued in June 2014, the LAN noted that the performance of council services raised no significant concerns. However, at the corporate level the conclusion was that Best Value audit work was required in the areas of governance and accountability and improving and transforming public services. The LAN's reasons for focusing on these areas were:

    - Governance and accountability - The council introduced new decision-making structures in May 2013 but not all elected members were participating in them. This posed a significant risk to the effectiveness of the council's governance arrangements and of decisions being made without proper challenge and debate.

    - Improving and transforming public services - The council had planned a number of general developments to its performance management arrangements. However, these

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[1] The audit of best value and community planning: Falkirk Council, Accounts Commission, May 2008.

were in the early stages of implementation and the challenge for the council was to ensure that the new arrangements were effective in practice. The LAN also identified that the council still needed to review some of its performance targets to ensure that they were specific, challenging and helped continuously improve how the council delivers services. We looked at this in the context of how the council's performance management arrangements support the planning and delivery of services with reducing resources, and in particular, how the council is addressing the need to make savings of £46 million over the next few years.

6. Falkirk Council has 32 councillors representing the people of Falkirk across nine wards. In recent years, the council's political arrangements have been a series of coalitions. In May 2013, the council revised its decision-making structures and implemented an Executive structure.

7. Falkirk is midway between Glasgow and Edinburgh.[2] With a population of 157,640, it is the eleventh largest council area in Scotland. Its population has been increasing for almost 20 years, and is expected to increase by over ten per cent to about 173,130 by 2037.[3] Major changes in the area in recent years include a new NHS hospital, all the area's secondary schools built from new or refurbished, and regeneration projects to improve some town centres. Other developments include the opening of the Falkirk Stadium, the Falkirk Wheel and, more recently, The Helix, which has transformed an area of underused land into 350 hectares of park and visitor attractions.[4] The council has an annual budget of around £330 million for its running costs and it employs almost 7,500 full-time equivalent staff.

8. The aim of our audit was to assess if the council's governance arrangements were working effectively, and enabling it to make strategic decisions and scrutinise how well it delivers services. It also considered how well the council's arrangements for performance management enabled it to plan, provide and improve services in the context of reducing resources and growing demand.

9. The bulk of the audit work was carried out by a team from Audit Scotland between November and December 2014, with more recent updates to reflect decisions made up to May 2015. Our audit work included:

- interviews with senior officers and councillors
- focus groups with administration and opposition councillors, and with senior managers
- observing a range of council and committee meetings
- document reviews.

10. We gratefully acknowledge the cooperation and assistance provided to the audit team by Mary Pitcaithly, Chief Executive, and Fiona Campbell, Head of Policy, Technology and Improvement, and all elected members and officers contacted during the audit.

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[2] Falkirk refers to the Falkirk Council area rather than Falkirk town.
[3] National Records of Scotland.
[4] Falkirk Council area demographic fact sheet, July 2015.

Summary

- **Falkirk Council generally delivers a good standard of services. For education services, the council had the third biggest increase in student performance in examinations, across all councils over the past ten years. In environmental services, it has increased recycling rates and successfully introduced three-weekly refuse collections while maintaining a high level of user satisfaction.**

- **Councils across Scotland are facing increasing challenges from growing demand for services with less money being available to spend. Falkirk Council had an overall deficit of £3.9 million in its running costs for the 2014/15 financial year, and needs to make savings of £46 million over the next three years to meet reductions in public spending. It requires more effective political and managerial leadership to respond urgently to the significant gap between the council's identified savings and its current unsustainable level of spending.**

- **The council needs to be more ambitious in its plans and increase the pace and scale of change, redesigning the way it works to provide the same or an improved level of service for less cost. Council plans for transformation and improvement cover a broad range of projects, but many of the initiatives are small scale. Senior managers need to provide more effective leadership and work with councillors to ensure they develop plans that will lead to the significant changes required.**

- **Falkirk Council has a range of tools for managing how it performs, and it continues to develop its approach to performance management. In order to get most value from this activity, it needs to be more systematic in its approach, using its performance management arrangements to make improvements happen and to transform services more effectively.**

- **The council's political management arrangements, implemented in May 2013, should have allowed the council to conduct its business effectively. Long-standing political differences and heightened political tensions led to difficult and unproductive working relationships, and some councillors did not participate in the new arrangements.**

- **Some aspects of scrutiny, such as opposition councillors not participating in the scrutiny committee and the Performance Panel meeting in private, did not meet good practice principles. As a result, they were not as effective as they should have been, nor transparent in providing public scrutiny of important issues or of performance. For two years, councillors' non-participation hampered the council's ability to carry out effective scrutiny.**

- **The council agreed revised arrangements in March 2015 and implemented these in May 2015, as our audit was drawing to a close. Early indications are that all councillors are participating in the new scrutiny committees and the Executive, but it is too early to say what impact the new arrangements will have in the longer term.**

- **We have identified a number of areas for improvement as a result of our audit. These relate to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting.**

Audit Assessment

The council faces significant challenges in making the £46 million savings it needs to achieve

11. All councils are facing increasingly difficult financial challenges. Councils that are better prepared have more robust plans for targeting resources at their priorities, for providing services in new and better ways, and for making savings over the longer term. Well-performing councils have buy-in from elected members for the difficult decisions that need to be made and clear strategies for change.

12. Falkirk Council recognises that it is facing a major challenge in making the savings that it needs to achieve. The council has identified that it needs to make savings of £46 million over the three-year period 2015/16 to 2017/18.

13. In February 2015, the Council agreed its £335 million budget for 2015/16 and approved a draft budget of £332 million for 2016/17.[5] This is the first time that the council has budgeted its spending over more than one year. The budget includes £12.4 million savings for 2015/16 and a further £18.4 million for 2016/17. This means that the council still needs to identify and deliver another £15.2 million of savings by the end of 2017/18. It requires the council to make difficult decisions to prioritise spending, not least in employee costs, which account for 60 per cent of its expenditure.

14. When the council was agreeing its budget options, proposals included reducing the workforce by 429 full-time equivalents, 5.8 per cent of its total workforce.[6] However, these savings proposals were not fully informed by the council's business transformation programme or other improvement activity, such as service reviews and self-assessments, to consider the costs and benefits of the proposals and alternative options. We have previously highlighted that councils need to ensure that staff reductions are considered within the context of comprehensive workforce strategies and plans that minimise any adverse impact on services.[7] Falkirk Council has not yet fully developed these. Its current workforce strategy covers 2011 to 2014 and it has chosen to delay developing a new strategy until 2015, to make sure that it is in line with its budget strategy.

15. The council's budget preparations for 2014/15 had anticipated a deficit of £1.5 million on its revenue expenditure.[8] It agreed to fund this and balance its planned budget by a transfer from its general fund reserves. However, in its unaudited accounts for 2014/15 the actual spending deficit was £3.9 million, requiring an additional £2.4 million to be transferred from the reserves. This was mainly due to a £3.3 million overspend against the social work budget.

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[5] Revenue Budget Framework 2015/16-2017/18, Falkirk Council, February 2015

[6] Service savings proposals across all services for 2015/16 and 2016/17, Falkirk Council, February 2015,

[7] *An overview of local government in Scotland 2015*, Accounts Commission, March 2015.

[8] Revenue Budget 14/15 report to Falkirk Council, 12 February 2014.

16. Council managers have acknowledged that using the general fund on this scale to support the revenue budget is neither sustainable nor appropriate.[9] This action was primarily responsible for bringing the council's uncommitted reserves down to £8.4 million, which, at 2.5 per cent, is still within its reserves target of £6.6 million to £10 million. However, the Reserves Strategy states that council should not use the general fund to fund recurring annual expenditure. The £3.9 million additional revenue expenditure in 2014/15 is now part of the planned savings of £12.4 million that the council needs to make for 2015/16.

17. The council says that it managed to deliver savings of £70.6 million over the last eight years, with average savings since 2009/10 of almost £10 million a year.[10] However, it has not always delivered its planned budgets over this period, and in the last two years it increasingly had to use the general fund reserves to balance its actual spending against budgets. The scale of reductions in spending over the next three years along with overspends in two of the council's biggest services, community care and children's and families service, will create a considerably more challenging environment.

The council's plans to provide services differently are not on a big enough scale to meet the major challenges it faces

18. Information from the Local Government Benchmarking Framework indicates that Falkirk Council generally delivers a good standard of services. [11] In particular, education services have improved in a number of areas, including school attainment and the percentage of school leavers going on to work or further education. The council has one of the highest rates of user satisfaction with refuse collection service across all councils, at 92 per cent. It has increased recycling rates and was one of the first councils in Scotland to successfully introduce three-week refuse collection services in 2014.

19. To meet the financial challenges it faces over the coming years, the council needs to significantly reduce its spending. It could do this by a combination of:

   • making efficiency savings in existing service arrangements to deliver the same level of service for less cost

   • doing things differently by redesigning how it provides services and providing the same or an improved level of service for less cost

   • making savings by reducing the level, or not delivering, some of the services it provides.

20. In recent years the council has achieved savings largely by reducing property costs, reducing staff, and creating efficiencies and improvements in services. There are some examples of new ways of working within services, but the council is unlikely to achieve the level of reduced spending required for the future, and continue to deliver the same standard of services, without a greater focus on transforming and redesigning the way that it provides its services.

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[9] Financial Position 2014/15 report to Falkirk Council 13 January 2015
[10] Falkirk Council, 12 November 2014
[11] *Local Government Benchmarking Framework 2013/14*, Improvement Service, 2014

21. The council does not have well-developed plans for how it will transform services both to make the savings it requires, and to minimise the impact of reduced spending on outcomes for local communities. Councillors have had limited involvement or information to date on projects to transform and redesign services.

22. The pace of change in the council has been slow. Its plans for providing services differently need to make a greater impact on the way it will conduct its business in future. The planned changes need to contribute more to identifying the savings it has to achieve, or to reducing the effect of cutbacks on people who use services. The council also needs to ensure that it can provide services in line with the strategic priorities and outcomes agreed in its corporate and community plans. Its priorities include: alleviating the causes and effects of poverty and addressing inequalities; stimulating business, growth, jobs and investment; and continuing to raise the ambition and aspiration of local children, citizens, businesses and services.[12] The council has used these as guiding principles in setting its budget savings options, for example, it carried out equality and poverty impact assessment of its budget savings proposals. However, it needs to demonstrate more clearly, how current transformation plans link with strategic priorities.

23. The council set up a Business Transformation Project in September 2013 with the intention to *'be a different organisation in the future and provide a framework for how council services can be delivered more effectively and efficiently'*.[13] Much of the council's current activity in this transformation project is small in scale. Eighteen months on, the council had still to identify clearly the anticipated savings for many of the individual transformation projects. Where potential savings are indicated, these are at a lower level than the overall savings the council needs to make over a short period.

24. Most of the savings identified so far have been through the options presented as part of the council's routine budget planning and not the business transformation project. While some of these options involve an element of service redesign, most savings for 2015/16 and 2016/17 are expected to come from reducing services or increasing and altering charging arrangements (Exhibit 1).

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12 *One council, one plan. Corporate plan 2012-2017*, Falkirk Council.
[13] Falkirk Council, Executive Meeting, 25th February 2015

Exhibit 1
Analysis of options for service savings agreed by Falkirk Council, February 2015
Most savings are expected to come from reducing services and increasing charges.

	Education (£m)		Social work services (£m)		Corporate & Neighbourhood Services (£m)		Development Services (£m)		Total: £m
Reducing services or access to services	4.05	+	1.67	+	1.39	+	1.29	=	8.4
Introducing or increasing charges	0.41	+	0.22	+	0.66	+	0.14	=	1.43
Other changes to services	2.47	+	1.01	+	0.88	+	2.8	=	7.16

Source: Audit Scotland analysis of Falkirk Council's Revenue Budget Framework 2015/16 - 2017/18, presented to Council in February 2015

25. The budget paper to the council meeting in February 2015 identifies savings of only £2 million from the business transformation project for 2016/17, out of £18.4 million total savings. [14] It identifies no savings from business transformation in 2015/16. Senior management maintains that the business transformation project does not represent all of the savings that have an element of transformation or redesign, but current documentation is not clear about this and it is difficult to see why a Business Transformation Project would not cover all activity of this nature. Key corporate business transformation projects that the Corporate Management Team (CMT) prioritised in February and March 2014 are outlined in Exhibit 2.

26. A progress report to the council's Business Transformation Project Board in March 2015, includes updates on the business transformation projects. A large number of these are service projects that are included in the budget savings options presented to the council in February 2015.[15] These projects are highlighted in Appendix 1. The progress report identified anticipated savings of £11 million from projects, up to March 2018. However, as indicated earlier, most of the service projects describe making savings by reducing services or increasing fees rather than transforming or redesigning services. These include, for example, proposals to increase fees for bereavement services, closing public toilets and changing the statutory minimum distance for pupils to receive educational transport. It is not clear from the progress report what impact the projects included will have on the council's strategic priorities and outcomes.

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[14] Revenue Budget Framework 2015/16-2017/18, Falkirk Council meeting 11th February 2015

[15] Falkirk Council, Business Transformation Project Board - Progress Report - 13 March 2015.

Exhibit 2

Update on key corporate Business Transformation projects prioritised by Falkirk Council Corporate Management Team in February and March 2014

Limited savings have been identified from the key corporate business transformation projects

Examples of corporate business transformation projects	Potential improvements and savings (time releasing/cash savings)
Corporate projects include:	
Payroll/HR Integration	• Expected to generate savings of £22,000 for 2015/16 and £47,000 for 2016/17.
Information management (including Electronic Data Management System)	• An improvement plan agreed by CMT in October 2014 with improvement action now underway.
Improved ordering and invoice payment processes	• E-series ordering to reduce manual processing, allowing staff to focus on more value adding tasks. Electronic transmission of documents will free up time and improved management information will allow better council spend analysis. • Invoice processing: savings in staff time by moving responsibility for invoice processing to Finance.
Mobile working	• Improvements and additional flexibility to service delivery and interactions with stakeholders.
Review of support services	• Proposed to bring the management of all support services across the council within a single structure. Expected to deliver around £500,000 in savings.
Facilities repairs and maintenance	• An independent external review of the facilities management service, completed by the end of April.
Fleet services	• A review of fleet arrangements, resulting in savings of £500,000 per year in the capital programme for vehicle replacement and £800,000 in revenue budget savings through better procurement, utilisation of vehicles and avoidable damage. Change in operating hours of the fleet workshop increasing the capacity to deal with vehicles outwith core times.
Project management	• New corporate project management documentation has been rolled out to staff to

Examples of corporate business transformation projects	Potential improvements and savings (time releasing/cash savings)
	improve the council's approach to managing and monitoring projects.
Building maintenance	• A review of building maintenance function undertaken by Association of Public Sector Excellence. Two working groups to work through key recommendations to deliver financial and time-releasing savings.
Process mapping	• Undertaken in both licensing and roads section leading to process improvement. Delivered in conjunction with the Improvement Service.

Source: Falkirk Council, Chief Executive report to the Executive, February 2015

27. In addition to its Business Transformation Project, the council has a Spend-to-Save scheme that encourages services to identify initiatives that will save the council money over time. Examples of potential schemes are "refreshing the profession" in education; energy saving and carbon reduction; and buying out commercial leases. In December 2012, the council agreed to transfer £2 million from general reserves to a spend-to-save initiatives fund, and it agreed a further £1.5 million in June 2013. However, in January 2015 the council took £1.3 million back out of this fund to support its current financial position, including overspends in social work services. It also proposed to return to the general fund £1 million that had been allocated for a new health and fitness suite in Stenhousemuir and to finance the project through borrowing.

Political leadership is required to transform council services so that they are more effective and efficient and meet the needs of local communities

28. Councillors in Falkirk will have to make difficult decisions about where to focus the council's resources and how to achieve required savings. In the current financial climate, it is even more important that councillors are confident that the council is providing the right services in the right way. They can do this by critically assessing the current arrangements and by looking at how other councils and organisations provide services. They should then consider a wide range of options for delivering services and assess the relative merits of these. Falkirk Council's current savings options set out the savings the council will make and the impact on services for the people who use them. But councillors are not provided with information on the costs and benefits of alternative options such as redesigning services.

29. The council's business transformation project is officer-led. Councillor involvement has been limited to decisions on some individual initiatives contained in the overall project. Until recently, the Business Transformation Project Board was made up of the Chief Executive, who chairs the board, and two corporate directors. It has now been extended to include all members of the Corporate Management Team (CMT), but it has no councillor membership.

The CMT, as the Project Board, recently started to report to the council's Executive on a periodic basis.

30. The arrangements around this important project have not had enough councillor involvement. In fact, councillors only became aware of the overall Business Transformation Project when a progress report was tabled, for noting, at the Executive meeting in February 2015. While councillors saw details of some projects as part of budget papers in November 2014, the February progress report was the first time the Executive received any reports about the overall business transformation project. Other elected members we spoke to during the audit were not aware of the project or its aims. While the majority of councillors strongly support and agree with the overall council priorities that are in place, it is less clear if they support how the council plans to deliver them. Councillors have not been closely enough involved in:

- setting strategic direction and establishing the parameters as to what options for transforming services would or would not be acceptable, in line with strategic objectives and priorities

- providing scrutiny and challenge to the work of the officers.

31. More could be done to communicate and engage staff and other stakeholders in the transformation and improvement agenda. Progress reports include large numbers of service projects that are more about reducing services or increasing charges. This means they are unlikely to focus the attention of elected members on the council doing things differently by service redesign and transformation and on meeting the needs of local communities.

32. Our audit work in councils that have taken action to improve how they carry out their business, has demonstrated that cross-party forums or joint working groups can be an effective way of bring councillors from different political perspectives together to address major challenges. Falkirk Council should consider if a cross-party working group would be appropriate to help it meet some of the financial challenges it faces and make the service delivery decisions needed. It would also give councillors more of an insight into, and role in, the council's transformation programme (Exhibit 3).

Exhibit 3

Working groups - getting it right

Working groups work well when:

- there is a clear purpose for the group
- there is a clear and shared remit
- there is representation by all political parties
- participants discuss policy options and delivery in an open and transparent way
- discussions are formally noted and notes are made available to all interested parties.

Working groups can help to:

- discuss and test policy options with councillors before developing formal proposals
- make officers more aware of the motivation and expectations of councillors
- provide councillors with an insight into the challenges of delivering services.

Source: How councils work: an improvement series for councillors and officers, Roles and working relationship: are you getting it right? Accounts Commission, August 2010

The head of internal audit cannot be project manager for business transformation and still provide objective and independent challenge to the process

33. The Business Transformation Project is project managed by the council's Internal Audit Manager. While the CMT's intention in this was to provide rigour and challenge to teams involved in individual projects, these arrangements create a clear risk that the substantive role of the Internal Audit Manager is compromised. The role of internal audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. These are clearly beneficial to support such a strategically important programme, but will not be effective if provided by the same person responsible for delivery of that programme. The council should review these arrangements, ensure that appropriate independent checks and balances are in place for the programme, and allow the project manager to focus on delivery.

The council could use self-assessment and service reviews more effectively to achieve improvements and transform services

34. The council's range of performance management tools include:

- a strategic planning framework linking high-level strategic priorities and department service plans
- a programme of Service Reviews
- a self-assessment tool, REFLECT, based on the Public Sector Improvement Framework (PSIF)
- a system of peer reviews, where service directors are held to account for the performance of their service by the Chief Executive and other directors.

35. The council has developed clear links between its own strategic priorities, as outlined in its Corporate Plan 2012-17, and the priorities set out in the Falkirk Community Planning Partnership Single Outcome Agreement (SOA). The corporate and SOA priorities then follow through into the service performance plans for 2014-17.

36. Our 2008 Best Value report recognised that the council had a well-embedded performance management framework throughout the council.[16] The council has continued to develop its approaches to performance management across the organisation, using a range of different methods. However, the council needs to do more to make sure employees are

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[16] *Audit of Best Value and Community Planning - Falkirk Council*, Accounts Commission, May 2008.

using its performance management arrangements, such as self-assessment and service reviews, in a more systematic way. These reviews should drive improvement and support the transformation of service delivery, particularly given the tighter financial situation, helping the council to get most value from its improvement activities as a result.

37. In demonstrating Best Value, a council's key processes should be linked to or integrated with the planning cycle. These processes include strategic analyses, stakeholder consultations, fundamental reviews, performance management, staff appraisal and development schemes, and public performance reporting.[17] To be effective, a council's performance management arrangements should drive change in how services are delivered and how it targets the resources available to it. They should clearly feed through into its budget planning process and inform its proposed savings options. There is limited evidence that the savings options proposed to the Council were properly informed by self-assessments and service reviews.

38. The council has a programme of self-assessments, but does not use these routinely as part of its service planning to identify areas for improvement. Instead, self-assessments have followed after the council has identified a problem. For example the council implemented a REFLECT self-assessment and service review in waste management. It did this as a reaction to an issue arising over existing staff terms and conditions rather than proactively to drive continuous improvement. The outcome was, however, successful in improving a poor performing service.

39. A council's programme of service reviews should focus on strategic priorities and objectives, and be based on areas for improvement identified through self-assessment and performance monitoring. Service reviews are fundamental in informing and supporting a council's business transformation projects and overall improvement agenda, identifying how it can deliver significant improvement in services through fundamental change and contribute to its required budget savings. In Falkirk, the business transformation programme and overall improvement agenda does not routinely use these reviews to identify clear priorities that will result in the most improvement.

40. In order to get most value from its self-assessments and service reviews, the council should carry them out on a regular basis and use this information to identify areas for improvement in its service plans. The lack of a systematic approach makes it harder for the council to demonstrate the areas that most need attention in order to improve performance and that will most help deliver on priorities and outcomes. With increasing demand on scarce resources and reducing budgets, it is even more important for the council to be able to prioritise its activities effectively. The council has recognised this and it is reviewing its guidance on service reviews.

41. There are some good examples of the council achieving improved performance in specific areas:

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[17] The Local Government in Scotland Act 2003, Best Value Guidance, Scottish Government, 2004

- The council's review of fleet services shows the benefit it could achieve by using its self-assessment and service review approach in a more systematic manner. While the decision to carry out a review was based on the council's need to make savings, the review consisted of an initial self-assessment of the service followed by a series of service review workshops. This approach helped fleet services identify several improvements in the service it provides that could lead to future savings, as well as deliver improvements for users. Fleet services now has an improvement plan that covers a number of actions and it has identified potential capital and revenue savings of £1.3 million for 2015/16.

- Education services have performed well in recent years and Education Scotland inspections over the last year have been positive. The number of pupils achieving five qualifications at level 5 increased by 11 percentage points in the last 10 years, the third highest increase out of all 32 councils between 2004 and 2013.[18] Performance management arrangements have contributed to this success, as has the strong improvement culture embedded within the department. The department has four overarching priorities, which support the council's corporate priorities and the single outcome agreement. These feed through into individual staff's objectives.

42. The Chief Executive is looking to extend the approach that education has taken to performance management across other services.

The council has developed guidance to improve its performance reporting

43. A corporate Best Value Working Group (BVWG) oversees developments in performance management and reporting arrangements. It recently reviewed the performance measures that are in place across the council and developed new guidance designed to improve target setting for performance improvement.[19] Services report performance regularly, but various factors suggest these reports have less value than they could in achieving improvement and ensuring that councillors and the public have a good understanding of the council's performance. For example, we found:

- In some instances there was no baseline figure provided in order to assess whether the services had improved or otherwise, the use of trend arrows was inconsistent and often confusing and there was a lack of contextual information to help interpret the data.

- Some performance indicators were not SMART, did not have a clear target, and used the wording 'reduce', 'maintain' or 'increase' without stating how much reduction or increase was required.[20]

- Errors in some of the traffic light reporting, with indicators showing 'green' when performance was actually poor or not meeting its target.

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[18] *School Education*, Accounts Commission, 2014

[19] Performance Framework Guidance, Falkirk Council, July 2015.

[20] Specific, Measurable, Achievable, Relevant, Timely

44. The council's new guidance covers these issues. However it is too early to assess its impact on the council's performance reporting and performance management.

45. The council could do more to ensure that it uses performance reports to drive improvement in performance by ensuring that it takes action where these reports identify a need for improvement. This does not always happen, and there is no clear process to follow up on any actions required.

46. The council uses feedback from the public to help it decide how and what it reports on its service performance. However its public performance reporting could still improve, particularly the information it makes available to the public on its website. There is a dedicated performance section on the council website, which includes service reports. But, most of these do not detail performance indicators with trend data and clear traffic light status. The overall annual statutory performance report includes trend data against a range of indicators but does not include traffic light status or comparison with other councils.[21] Nor do these reports provide contextual information to help readers understand the council's performance.

Aspects of the council's scrutiny arrangements have not been working effectively, limiting its ability to meet the challenges it faces

The council introduced new decision-making structures in May 2013

47. We identified the need for a review of political and managerial structures and the council's approach to scrutiny as areas for improvement in our 2008 Best Value report.[22] The Council subsequently set up an Audit Committee to enhance scrutiny, in line with good practice guidance.

48. Falkirk Council has 32 councillors representing the people of Falkirk across nine wards. In recent years, the council's political arrangements have been a series of coalitions. At the first Falkirk Council meeting following the 2012 election, members asked the Chief Executive to review decision-making arrangements to establish a quicker, more efficient structure. The council set up a working group of the leaders of the administration and opposition groups and senior officers. This made recommendations that were included in a report to council in December 2012 and implemented in a decision at council in March 2013. At that time, the council agreed an Executive structure, which it implemented in May 2013 (Exhibit 4).

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[21] Performance indicators for SPI 1 and SPI 2 2013/14, Falkirk Council, September 2014.
[22] The audit of best value and community planning, Falkirk Council, Accounts Commission, May 2008.

Exhibit 4
Decision-making structures at Falkirk Council
Falkirk Council implemented an Executive structure in May 2013.
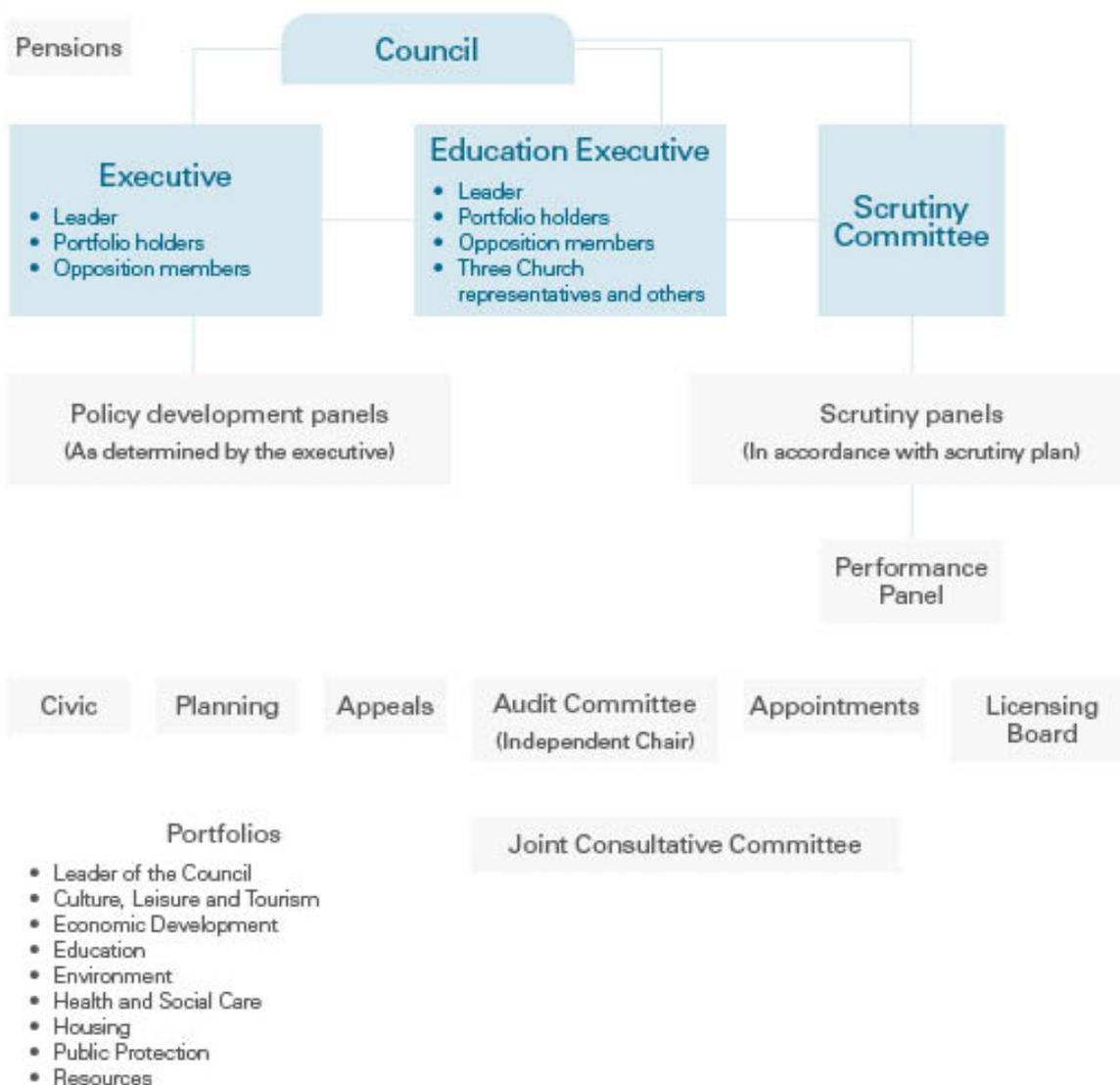
Note: This structure was updated in May 2015 to create two scrutiny committees (see paragraph 62).
Source: Falkirk Council

49. The new model was agreed in March 2013, by 17 votes to 13. It included the following:

- An Executive, as the main decision-making body at the centre of the council, with a policy making role. It would consist of 12 members: nine from the administration and three from the opposition. The administration members would comprise the Leader and eight portfolio holders, covering resources, education, health and social care, housing, economic development, environment, public protection and culture, leisure and tourism.

- Policy Development Panels chaired by the relevant portfolio holder, to support the Executive. They would be responsible for reviewing and developing policies for the Executive to approve. The Executive would agree membership of these panels, with only one member needing to be from the opposition.

- An Education Executive to discharge the council's function as an education authority. It would include the main Executive's 12 members plus three religious representatives, two parents nominated by the Parents Forum, two teachers and two pupils.

- A Scrutiny Committee to scrutinise the Executive's decisions by establishing an annual scrutiny plan and scrutiny panels.

- Scrutiny panels consisting of up to five councillors, who are not members of the Executive, drawn from the administration and opposition

- A Performance Panel, set up as a standing scrutiny panel, to scrutinise service performance. It would have five members, but all councillors could attend.

- The existing Audit Committee, which has an independently appointed convener, Planning, Civic Licensing, Appeals and Appointments Committees would continue to exist with unchanged remits.

Aspects of the new arrangements introduced in May 2013 did not work effectively

50. The Accounts Commission highlights that the '…*foundation stones of good governance and accountability remain constant. Good Governance concerns taking informed and transparent decisions which are subject to effective scrutiny.*'[23] The Commission has also reported on the impact of heightened political tensions among councillors and a lack of trust and mutual respect between councillors, and between councillors and officers. This can limit their ability to work together and can restrict the council's ability to meet the challenges it faces.

51. Following the council's decision in March 2013, there was evidence of difficult political and personal relationships when further reports on developing the new structures were considered at council meetings. While the council had agreed to move to the new model, there was disagreement about some of the detail on how the arrangements would work in practice. These did not meet opposition members' expectations of an enhanced role in holding the administration to account.

52. For the next two years the new arrangements were hampered by political disagreements about membership of committees, chairing of the scrutiny committee and a perceived lack of political balance. Opposition councillors did not take up their places on the Executive and did not participate in the Scrutiny Committee.

53. Instead they established alternative ways of working with senior officers to contribute to council business. They did this through pre-agenda meetings with senior management.

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[23] *An overview of local government in Scotland 2015*, Accounts Commission 2015

These were not attended by the administration and not open to the public. Opposition councillors considered they were carrying out their scrutiny role through this arrangement as it allowed them to hold officers and services to account. Officers were clear that this was not part of the governance arrangements. There was no debate with the Executive and no opportunity to hold the Executive to account for its decisions. Therefore much of the scrutiny of council business lacked public challenge and debate. Pre-agenda meetings are useful in supporting formal council procedures, but they are not an alternative to proper decision-making arrangements or scrutiny of an Executive.

Non-participation of some councillors in scrutiny arrangements meant they did not provide the challenge to Executive policy and decision making

54. A particular point of contention was the Scrutiny Committee. The role of the Committee, as voted through in March 2013, was to scrutinise decisions by:

- establishing, implementing and overseeing the annual scrutiny plan

- identifying areas that would benefit each year from in-depth scrutiny

- recommending the plan to council

- establishing scrutiny panels to consider the in-depth subject areas

- performing the scrutiny role for Following the Public Pound reports, the work of the Community Trust and the Policing and Fire and Safety Plan.

55. This was an extensive, wide-ranging remit and could have given opposition members an enhanced role in the scrutiny process and the council a counter-balance to the Executive. However, the Scrutiny Committee's potential to contribute to effective council business was unfulfilled. Decisions taken on its membership and remit contributed further to poor political and personal relationships between councillors. The Council's decision was that the Scrutiny Committee would comprise of six members of the administration and four from the opposition. The decision to have an administration majority on the committee delivered politically balanced arrangements in terms of reflecting the political composition of the council. However, opposition members felt that, as they were in the minority, it did not deliver the counter-balance role to the Executive or provide the enhanced scrutiny role for the opposition that they expected. The membership and chair of the Committee were key points of disagreement. Opposition councillors attended a scrutiny workshop in May 2013, but did not attend any meetings of the Scrutiny Committee. Despite both the administration and opposition proposing changes to membership, they were unable to reach a consensus over the subsequent two years, until March 2015.

56. The standing orders stated that the members of the Scrutiny Committee would decide who would be the Committee convenor, but did not specify if the intention was for an opposition councillor to be convenor. This should have been clearly set out in the standing orders to avoid any doubt, particularly given the difficult relationships within the council. Revisions to the standing orders following the changes to the scrutiny arrangements in March 2015 have resolved this. They state that the convenor should be a member of the largest opposition group and appointed by the committee.

Scrutiny of service performance in Falkirk Council has not been conducted in public and this does not meet good practice principles

57. Aspects of Falkirk Council's scrutiny arrangements do not meet good practice principles, and are not transparent in providing public scrutiny of how services perform. The Performance Panel first met in November 2013 and has met a further ten times since then. This is the main place where elected members scrutinise service performance under the council's management arrangements. While the opposition did not take up their nominated positions formally on this panel following implementation, they did attend and contribute to the discussions taking place.

58. The panel is open to all councillors to attend but its meetings are in private. The papers and full performance reports that the panel receive are not available publicly; however, the minutes of its meetings are reported to the Scrutiny Committee. This does not meet Best Value principles *'that unless it is inappropriate, key discussions and decision-making are held in public meetings and reasonable measures are taken to make their agenda, reports and minutes accessible to the public'*[24] During the audit, we observed meetings of the Performance Panel. Working relationships between councillors were cordial and constructive. We could see no reason why the business discussed could not have been dealt with in public.

Councillors and senior officers took two years to resolve non-participation in the governance arrangements

59. The political and managerial leadership of the council did not resolve the non-participation of opposition members in key areas of the council's governance arrangements for almost two years. The council's Annual Governance Statement in June 2014 highlighted this as an area in need of improvement and stated that officers and members would review and reflect on the council's revised decision-making structures.[25]

60. Senior officers were aware of the difficulties and spent significant time in discussions with councillors. But they were not proactive enough in findings ways to resolve them, such as involving external bodies or a third party to facilitate or mediate in discussions. In practice, senior officers may have inadvertently contributed to the impasse as they continued to conduct business with opposition councillors outwith the main committee structures through pre-agenda meetings. These often lasted three hours, taking up the time of senior managers and other council officers attending, in addition to the formal Executive meetings. A benefit was that senior council officers felt the arrangement allowed them to maintain dialogue and build relationships with opposition councillors. An unintended consequence of continuing this arrangement may have been to delay resolving the disagreements that arose in May 2013. These severely limited all councillors playing their proper role in the council's business. Many councillors were not aware, or did not accept, that they had a role in resolving the difficulties. Some said it was for others to resolve.

[24] The Local Government in Scotland Act 2003, Best Value Guidance
[25] Falkirk Council Audit Committee Report, Annual Governance Statement 2013/14, 23 June 2014

61. In March 2015, towards the end of our audit work, the council agreed new scrutiny arrangements to establish two scrutiny committees. One will look at internal service issues and one at external issues such as police, fire and the community trust. Each scrutiny committee will comprise eight members: four from the administration and four from the opposition. A councillor from the largest opposition party will chair each committee. Opposition councillors are now participating in these governance arrangements, having attended Executive meetings and submitted names for membership of the two scrutiny committees. The new arrangements took effect following the council meeting in May 2015, when councillors agreed the review of the council's scheme of delegation. Early indications are that councillors from all groups are now participating in the new scrutiny committees and the Executive. It is too early to say how effective these new arrangements are.

62. Full participation and commitment to working together from all groups of councillors in its committees and panels, offers the potential to give greater representation to all shades of opinion and for better engagement with the public and stakeholders. For example, the Policy Development Panel has previously had presentations and discussions with staff and external stakeholders on such issues as bereavement services, tourism and the work of the Citizens Advice Bureau.

63. Other developments have seen the council increase its openness and transparency in how it consults on its budget proposals. It reported a budget options paper to the full Council meeting in November 2014, earlier than in previous years. This was followed by consultation with the public through its website and focus groups using the council's citizen's panel.

64. The council faces difficult decisions to plan and deliver future services that meet the needs of local communities in a tightening financial position and expected increases in demand. It needs to take these decisions urgently given the scale of the savings it needs to make. All councillors need to participate in these decisions, in the scrutiny process that will strengthen these decisions, and in ensuring they are implemented.

Councillors and senior officers need to make recently agreed scrutiny structures work

65. The council now needs to show effective political and officer leadership as well as commitment to the new structures agreed in March 2015. With the new arrangements implemented in May 2015, the council has an opportunity to ensure that councillors have the skills and training to support them in their roles within the new structures. This includes training to help them understand their roles and the opportunities for them to contribute to developing, scrutinising, and reviewing policy decisions.

66. The council's Governance Division is responsible for providing training and support for councillors as well as a range of other council business. Much of its time, since March

2013, has been taken up with implementing the changes to the decision-making structures and in reviewing the arrangements. There is now an opportunity for all councillors to play a full role in making the new arrangement work, and to be fully supported in this by officers.

Difficult relationships between councillors and between some councillors and officers in Falkirk Council have affected their ability to work together effectively

67. Politics is an integral part of local government and debates, disagreements and tensions are not unusual. However, councillors must be able to work constructively to support the council's work and look after the interests of the whole community (Exhibit 5).

Exhibit 5

What the Accounts Commission says about working relationships

Clear roles and responsibilities, and good working relationships underpin councils' abilities to achieve Best Value

In successful councils, councillors and senior managers share a strong public sector ethos and work well together to put their plans for the council area into action. Common features include:

- clearly understood political and managerial structures
- professional and constructive relationships between councillors and between councillors and officers
- a shared commitment to council priorities
- constructive debate at council and committee meetings.

In contrast, in many of those councils making least progress in Best Value, a lack of clarity about roles and responsibilities and poor working relationships were contributing factors. In the most serious cases, problems included heightened political tensions among councillors and a lack of trust and mutual respect among councillors and between councillors and officers, which affected their ability to work together.

Source: Accounts Commission - How councils work: Roles and working relationships: are you getting it right? 2010

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68. In Falkirk Council, long-standing political differences and heightened political tensions have led to difficult working relationships between councillors. The tensions between councillors increased after the council introduced the new decision-making structures in 2013. We witnessed examples of a lack of professional and courteous behaviour between some councillors when attending council and committee meetings during our audit.

69. These difficult working relationships affected business at full council meetings, with a great deal of time spent on motions and amendments. These, in turn led to breaks and adjournments in business. Councillors were also using Freedom of Information requests to access information about council business. These requests were for information they considered had been withheld, with one request relating to changes to the decision-making structures. While not great in number, time and cost is spent dealing with these, rather

than managing business more cordially and efficiently. These examples also suggest distrust and tensions between some councillors and some senior officers. The council does not have a local protocol that sets out clearly how it expects councillors to work or behave with each other and with officers. Other councils have found these useful in managing business better (Exhibit 6).

Councillors can work together in some circumstances

70. Examples of effective councillor working relationships show that Falkirk councillors can work together. Administration and opposition councillors work together in various settings. In these, councillors from all political and non-aligned groups actively conduct council business, work constructively, acknowledge and compliment one another, and on occasion, vote across party lines. These arrangements include:

- the Civic Licensing, Planning, Appeals, Audit, and Appointments Committees and the Licensing Board
- the Performance Panel
- multi-member ward arrangements
- member and officer working groups
- Falkirk Community Planning Partnership.

71. Other than the Performance Panel, these settings are well established and long standing elements of the council's business arrangements, which may explain why they operate more effectively. The Performance Panel meetings are open to all councillors. While opposition members did not formally take up their places until May 2015, they did attend and played an active part in its business. Although it does not meet in public, most councillors we spoke to considered the work of the Panel to be collaborative and effective in scrutinising service performance.

72. There is evidence that Falkirk councillors work together more constructively in meetings held in private. Good practice would be for meetings, such as the Performance Panel, to take place in public with the same constructive, professional relationships. The council should ensure that all aspects of its new scrutiny arrangements are open and transparent, and help achieve public accountability.

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73. There is scope for the council to build on the effective working of the Performance Panel and make its work more open and available to public scrutiny. It is not clear if there will be any further changes to how the Performance Panel will operate.

74. In most, but not all, of the multi-member wards, councillors from across the political groups work together for the benefit of their local communities. Where these arrangements are not working well, this appears to be a result of difficult personal working relationships between individual councillors. Councillors from all parties have also worked together on member and officer working groups, for example on plans for new council headquarters.

75. Councillors work together to represent the council on the Falkirk Community Planning Partnership. The leader of the council's opposition group joined its Leadership Board in 2013/14 to help ensure continuity if the administration of the council changes after the next council elections. Along with partners, they have shown that they can respond and deal quickly with emerging issues (Exhibit 7).

Exhibit 7

Community Planning Partnership's response to local problems

Councillors can work together for the benefit of Falkirk

Effective partnership working has helped Falkirk respond quickly to local problems. The strong working relationships flowing from the collaborative approach in Falkirk allow partners to respond quickly and innovatively to local problems, for example, when the Ineos petrochemical plant at Grangemouth was threatened with closure in 2013. Representatives from Falkirk Council (including elected members), Scottish Enterprise and the business sector (including companies based at the Grangemouth complex) held meetings at short notice to clarify the issues and identify potential solutions. Together, the partners agreed a range of actions. These included developing a joint economic impact assessment that helped resolve the dispute and ensure the Grangemouth complex remained open.

Source: Falkirk Community Planning Partnership, Audit Scotland, May 2014

Areas for improvement

Falkirk Council faces a significant challenge in making the savings that it needs over the next three years. It needs to take urgent action and show more effective political and managerial leadership to respond to these circumstances. We have identified a number of areas for improvement relating to the scale and pace of change at the council and its approach to scrutiny, performance management and performance reporting.

Scale and pace of change

- **The council cannot afford to continue spending at its current level and its needs to make substantial savings over the next few years. It should develop clear and detailed plans for how it will make these savings, supported by good analysis, options appraisals and strong business cases. It should also set out how it will significantly increase its scale and pace of change in transforming and improving services.**

    - The council should ensure that staff reductions are planned within the context of comprehensive workforce strategies and plans to minimise any adverse impact on services.

    - The council should ensure that councillors are properly involved in the business transformation project, that they provide clear strategic direction and that they have the necessary skills and knowledge to challenge appropriately.

    - The council should consider if a cross-party forum or budget working group, bringing councillors from different groups together, would be appropriate to help deal with some of the financial challenges and service delivery decisions that are needed. It would also involve them in redesigning and improving services to make savings.

    - The council should ensure that the role of the internal audit manager in its business transformation is appropriate, with no risks to an effective role for internal audit in providing independent assurance.

Scrutiny

- **All councillors need to participate in the council's governance arrangements, as implemented in 2015, including the executive and scrutiny committees. They need to take collective responsibility for decisions, the scrutiny process that will strengthen these decisions and ensuring agreed decisions are implemented.**

- **The council should ensure that all its scrutiny arrangements, in particular its Performance Panel, meet best practice principles. It should ensure that:**

    - scrutiny involves constructive challenge, regardless of political allegiances

- all aspects of the scrutiny arrangements, including the work of the scrutiny panels and the Performance Panel, are open and transparent, and support public accountability.

- **The council faces tough decisions in a difficult financial environment to plan and deliver services to meet the needs of local communities. All councillors need to understand their role in making these decisions, and in the scrutiny process that supports them. The council should do more to support councillors by:**

  - providing information and training to make sure that councillors and officers have a shared understanding of the new structures that were implemented in May 2015, and how they operate in practice

  - providing information that makes it clear how councillors can contribute most effectively.

- **The council should consider developing a local protocol that sets out clear expectations for how councillors should work together and with officers.**

Performance management and reporting

- **The council should integrate its various strands of performance management, service improvement and business transformation to ensure it has a coherent approach. It should use this to target its resources, focus on delivering its priorities and drive continuous improvement. It should:**

  - co-ordinate its activities such as service reviews, self-assessments and business transformation and show how these will lead to specific improvement

  - regularly and systematically carry out self-assessment of services, including comparison with other councils and use this information to identify areas for improvement in its service plans

  - ensure its programme of service reviews focuses on its strategic priorities and objectives and is based on areas for improvement identified through performance information

  - ensure its business transformation and improvement projects build on the priorities identified through service reviews and good practice from other areas, to identify how to significantly improve services and contribute to required budget savings.

- **The council should ensure that its performance reporting arrangements make improvement happen. It should produce action plans where performance reports identify a need for improvement, take the action required and provide assurance to councillors that these actions are followed up.**

- **The council should further improve the performance information that it reports to councillors and publishes so that councillors and the public have a good understanding of the council's performance. In line with good practice, and the council's new guidance, its public performance reporting should include:**

- performance indicators that include a baseline figure to show where services have improved or otherwise; they should also include contextual information or an explanation when using trend arrows or traffic light indicators to help readers interpret the data, for example whether an indicator increasing indicates performance is better or worse

- performance indicators that are SMART, and have a clear target for what is to be achieved or what is expected.

Appendix 1

Analysis of savings for 2015/16 budget and draft budget for 2016/17, February 2015

Reducing services or access to services	Expected two year savings
Education	**Total: £4.05m**
Primary schools - removal of discretionary teaching	£600k
Review of options to reduce primary school teaching hours from 25 to 22.5 hours/week	£595k
Support for Learning Assistants - reduce level of support by efficiencies & new model of operation	£400k
Secondary schools - reduce teachers/subjects and rationalise management structure	£400k
Reduce frequency of building cleaning	£365k
Transport - change to statutory minimum of 2 or 3 miles, depending on age	£350k
Stop school library service & move to management via secondary schools	£325k
Community Learning & Development - reduce number of staff	£320k
Special education - reduce teacher/manager posts	£300k
Stop baby provision (48 places)	£115k
Reduce schools per capita budgets (Education)	£100k
Stop breakfast clubs	£60k
Reduce level of provision for speech and language therapy	£50k
Psychological services - reduce number of psychologists	£50k
Transport from travelling people site - stop automatic provision and move to distance entitlement	£10k
Close Bo-ness CLD office	£10k
	Cont.

Social Work Services	Total: £1.67m
Tighter eligibility criteria for adult social care to restrict provision to those whose needs are critical or substantial	£1.4 m
Terminate existing shopping service with alternative reduced service being commissioned through the voluntary sector	£125k
Redesign of employment services to people with a disability and potential closure of ASSET	£102k
Five per cent reduction in funding to Barnardo's Axis service, Sacro mediation and Barnardo's Cluaran service	£26k
Reduce frequency of cleaning to buildings	£16k
Corporate & Neighbourhood Services	**Total: £1.39m**
Removal of discretionary elements of Private Sector Team	£256k
Closure of all public conveniences	£249k
Waste disposal - close one household waste site	£200k
Street cleaning - litter picking - reducing the number of teams/squads and reducing the frequency of the current litter picking cycles	£200k
Public conveniences - closure of automatic public conveniences excluding Bo-ness	£112k
Grounds Maintenance: Weed control - reduce frequency of weed spraying	£100k
Community Safety Team - reduce level of patrols and the geographical areas patrolled	£75k
Grounds maintenance: Shrub bed maintenance - reduce level of maintenance	£75k
Stop the deposit guarantee scheme	£56k
Grounds maintenance: Nursery - stop operating a glasshouse at Kinneil nursery	£40k
Grounds maintenance: summer bedding - reduce the number of flower beds and revert to grass area. Reduce the overall number of hanging baskets displayed	£30k
Development Services	**Total: £1.29m**
Youth employment - removal of additional funding element first agreed in 2012/13	£500k
Economic development - reduction in service provision	£500k
Phased reduction in provision of school crossing patrols	£150k
Removal of 14/15 year old travel concessions	£74k
Removal of taxi cards	£64k
	Cont.

Introducing or increasing charges	Expected two year savings
Education	**Total: £408k**
School catering - increase price by 20 per cent over three years	£300k
Increase childcare fees by five per cent per annum	£45k
Charges for all school lets	£40k
Schools lets - increase charges by five per cent	£23k
Social Work Services	**Total: £216k**
Increase existing non residential charges and charging caps in line with inflation	£96k
Introduce eligibility criteria for transport accompanied by charges for transport provided	£50k
Inflationary uplift in charges for older people's homes	£35k
Introduce charges for day care for older people at a rate of £5 per week	£29k
Inflationary increase for meals provided through meals on wheels and through day centres and lunch clubs	£6k
Non-residential charging for adult care - move to phase 2 charging with removal of capped charges	£TBC
Corporate & Neighbourhood Services	**Total: £657k**
Garden aid - start charging	£250k
Refuse collection - introduce charges for special uplifts	£227k
Bereavement services - increase charges	£150k
Pest control - introduce charges for all residents	£15k
Refuse collection - charge for bins in new housing developments	£15k
Development Services	**Total: £137k**
Charge for car parking at stations where parking is free	£130k
Street naming and numbering (new charges to developers/house-holders)	£7k
Other changes to services	**Expected two year savings**
Education	**Total: £2.47m**
Review of PPP/NPDO contractual arrangements e.g. contract specification reductions and refinancing	£950k
Wider review of Community Learning & Development provision	£700k
Education service central support staff (admin and clerical) - reduce number of staff	£400k
Early years - review management structures in nursery schools and sessionalise Heathrigg	£145k
Community Learning & Development Halls - Community transfer	£100k
Primary schools - shared headteachers /school management	£60k
Music/instrument instruction - review curricular choices	£50k

Centralise Community Learning & Development management	£40k
Early years - full cost recovery on provision for babies	£17k
Promote use of parental contracts instead of taxis	£5K
Social Work Services	**Total: £1.01m**
Potential reduction of existing building-based day services in response to anticipated increase in demand for packages of self directed support with built in efficiencies of 20 per cent	£460k
Redesign of care home provision with closure of Oakbank and reprovision of Summerford	£300k
Close Rowans short break service and purchase equivalent number of places externally	£100k
Home care - shift the balance of internal/external provision towards a greater proportion of external provision	£75k
Review Caledonia Clubhouse and services provided by FDAMH with a view to achieving efficiency savings of 20 per cent	£71k
Review and redesign of joint dementia initiative	£TBC
Corporate & Neighbourhood Services	**Total: £878k**
Grounds maintenance: Grass cutting operations - review grass cutting routes/beats	£215k
General fund housing - third party payments - ongoing supported accommodation review	£202k
Street cleaning - mechanical sweeping - review sweeping cycles	£100k
Private sector housing - top slice total working budget by 12 per cent	£99k
Small repair scheme	£93k
Building Services Administration function	£79k
Trade waste - reduce crew sizes to two staff	£50k
Grounds maintenance: reduce the size of the squads carrying out tree works	£40k
Development Services	**Total: £2.8m**
Transport planning (including bus subsidies)	£1.8m
Reduce staff costs by 8 per cent	£1m

Note: ▢ These projects are included in the *Business Transformation Project Board Progress Report* (see paragraph 27).

Source: Audit Scotland Analysis of *Falkirk Council's Revenue Budget Framework 2015/16-2017/18*, presented to Council in February 2015